

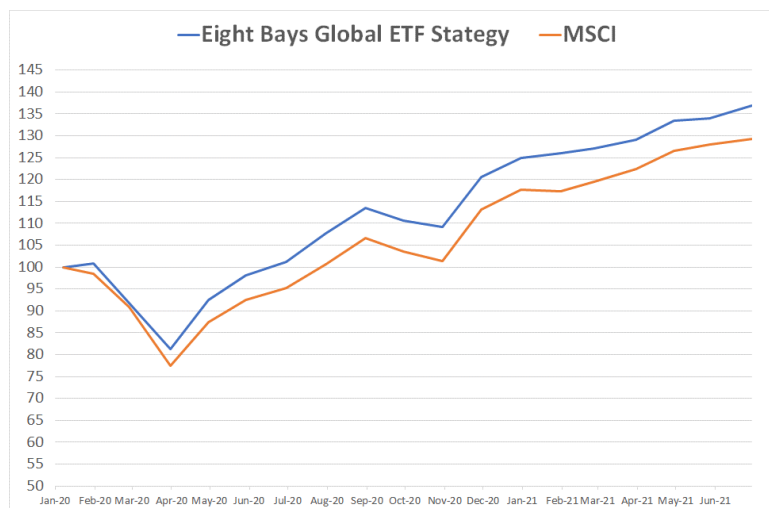
# Eight Bays Global ETF Strategy

## Investor Update

### JUNE 2021

The Eight Bays Global Exchange Traded Fund (ETF) Strategy gained 2.88% in June, which was 1.74% higher than the benchmark MSCI All Country World Index (ACWI) which gained 1.14%. Since inception (January 2020) the Eight Bays Fund has increased by 40.17% compared to the ACWI increase of 29.68 %, therefore outperforming the benchmark by 10.5%.

The main contributors to performance in June were Information Technology + 7.1%, Semiconductors+5.2%, Cybersecurity +5.1% and Medical Devices +4.3%. Underperforming Positions were Financials -3.3%, Industrials -2.2% and China +0.5%.



Source: Saxo, SeekingAlpha

### PORTFOLIO CHANGES

In the first half of June, we completed the sale of the General Industrials ETF after strong gains in multinationals such as Caterpillar, Deere and General Electric, which is recovering under the leadership of Larry Culp. The funds were applied to increasing our overweight positions in Cybersecurity and Robotics, while Information Technology was added to, increasing our exposure to Apple and Microsoft. Cash was 2% at month end.

**COMMENTARY**

In June we continued to focus on sectors which have the best outlook for growth through the economic cycle. Markets continued to make new highs amid continuing debate as to the interplay of inflation and interest rates. Trend followers who had rushed into “value” sectors such as energy and financials were left confused by the renewed enthusiasm for growth and technology.

With liquidity remaining high and bonds unattractive to many investors, the momentum behind equities remains strong. With the Federal Reserve walking on eggshells the impetus for a meaningful market correction remains elusive – perhaps an inflationary shock or “black swan event” such as a more contagious, vaccine resistant and lethal covid variant or a more serious deterioration in global peace. On June 16<sup>th</sup> the Federal Reserve indicated that it could slow asset purchases and increase interest rates sooner than expected.

Renowned investor Ray Dalio of Bridgewater Associates, increasingly a student of economic history, warned that the Federal Reserve could damage markets and that monetary inflation could become overheated. He concluded that emerging technology stocks showed several signs of being in a price “bubble” but that the market as a whole was not in a “bubble”.

**Current Conditions Compared to Previous Bubbles**

	Roaring 1920's	Dot-Com Bubble	2007	Today: Total Market	Today: Emerging Tech
1 Prices Are High Relative to Traditional Measures	Bubble	Bubble	No Bubble	Somewhat Frothy	Frothy
2 Prices Are Discounting Unsustainable Conditions	Bubble	Bubble	No Bubble	No Bubble	Frothy
3 New Buyers Have Entered the Market	Bubble	Bubble	Frothy	Frothy	Bubble
4 There is Broad Bullish Sentiment	Bubble	Bubble	Frothy	Frothy	Bubble
5 Purchases Are Being Financed by High Leverage	Bubble	Bubble	Bubble	Somewhat Frothy	Bubble
6 Buyers/Businesses Have Made Extended Forward Purchases	Frothy	Bubble	Bubble	No Bubble	Somewhat Frothy

Source: Bridgewater

**PORTFOLIO COMMENTARY**

As we have emphasized over the last year the Eight Bays portfolio has avoided ETFs with significant exposure to bubble stocks such as Zoom, Peloton, Nikola and Tesla which have now suffered significant downward moves over the first half of 2021. The exception is our Cybersecurity ETF where there are several nascent stocks which are in the early stages of

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generating significant revenues. However, we believe that capturing the emerging companies such as CrowdStrike, Zscaler and Cloudflare through an ETF that is balanced with profitable established companies such as Accenture and Cisco will give significant exposure to this innovation thematic.

Similarly, our overweight position in Robotics has a balanced international exposure through North America (Nvidia, Intuitive Surgical, Brooks Automation), Japan (Fanuc, Keyence, Yasakawa Electric) and Europe (ABB, Renishaw, Tecan Group).

In Healthcare, a sector that has both growth and defensive characteristics, we have an overweight exposure to Medical Devices, a sector that suffered from Covid induced delays to elective surgery. The Medical Devices ETF features world class companies with strong operating “moats” (Morningstar Research) Including Abbott Laboratories, Thermo Fisher Scientific, Danaher, Intuitive Surgical, Edwards Lifesciences and Boston Scientific.

We also retain an overweight exposure to Communication Services (Google, Facebook, Digital Streamers – Disney etc. and Online Gamers – Activision Blizzard, Electronic Arts).

### Individual Look Through Stock Exposure (30 June 2021)

Company	Portfolio Weight
1 Facebook, Inc. Class A	3.78%
2 Alphabet Inc. Class C	3.57%
3 Apple Inc.	3.32%
4 Microsoft Corporation	2.84%
5 Amazon.com, Inc.	2.62%
6 NVIDIA Corporation	2.50%
7 Abbott Laboratories	1.55%
8 Home Depot, Inc.	1.49%
9 Thermo Fisher Scientific Inc.	1.48%
10 Intuitive Surgical, Inc.	1.34%
11 Medtronic Plc	1.24%
12 Danaher Corporation	1.22%
13 Taiwan Semiconductor Manufacturing Co., Ltd.	1.14%
14 Walmart Inc.	1.04%
15 JPMorgan Chase & Co.	0.94%
16 Tencent Holdings Ltd.	0.86%
17 ABB Ltd.	0.79%
18 Alibaba Group Holding Ltd.	0.76%
19 Netflix, Inc.	0.76%
20 Berkshire Hathaway Inc. Class B	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: Global Equity ETF Market

Number of ETFs: 5 to 15

ETF weights: Max 20%

Cash holdings: Up to 20%

Hedged : No. US Dollar product

Investment objective: 2-3% pa > MSCI World

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