Equity Trustees

September 2024
Quarterly Report

EQT EIGHT BAYS GLOBAL FUND

FUND OBJECTIVE

The EQT Eight Bays Global Fund's (The Fund) investment objective is to deliver gross performance (less fees) above the benchmark over rolling 3-year periods.

The Fund is designed to give investors exposure to global growth industries and world leading companies, primarily through a portfolio of US Exchange Traded Funds (ETFs).

FUND PERFORMANCE

Over the last 12 months the Fund has delivered a very strong total net return of 24.64% outperforming the benchmark by 2.34%. The Fund has a quieter quarter in September but still posted a solid absolute total net return of 1.81% slightly trailing the Benchmark MSCI All Country World Index (ACWI) ex Australia index.

PERFORMANCE[1]	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (P.A.)	SINCE INCEPTION (P.A.)[2]
Income return[1]	0.00%	0.00%	0.00%	0.00%	0.00%
Capital return	1.81%	1.86%	24.64%	6.62%	7.23%
Total net return	1.81%	1.86%	24.64%	6.62%	7.23%
Benchmark return[3]	2.46%	3.01%	22.30%	9.49%	9.45%
Active return	-0.66%	-1.14%	2.34%	-2.87%	-2.22%

Table 1

[1] Performance: Income and total net returns are fund returns after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions. Results greater than one year are annualised.

[2] Inception date is 1 July 2021.

[3] Benchmark return is the MSCI ACWI ex Australia net return Index (AUD).

Past performance is not an indicator of future performance.

ETF PERFORMANCE SUMMARY

The best performing Exchange Traded Fund (ETF) positions in the September 2024 quarter were Industrials (up 11%), Financials (up 10%) and Smart Grid/Electrification (up 10%).

Underperforming ETFs were Semiconductors (down 5.5%), Information Technology (up 1.7%) and Global Pharmaceuticals (up 3.9%).

FUND ACTIVITY

There were only minor adjustments to the EQT Eight Bays portfolio in the September 2024 quarter. The single stock position in Amazon was increased from 3% to 4%. Amazon logistics have sharpened focus on cost efficiencies in the E-Commerce business while managing some labour cost pressures. Cost efficiencies have been achieved in shipping and fulfilment expenses, with ongoing automation offering further cost benefits. The Amazon quarterly report showed 19% growth in Amazon Web Services (AWS), with strong enterprise demand for Cloud migration projects, generative artificial intelligence (AI) and non-generative AI workloads. Amazon advertising revenues grew 20%, with management seeing further growth in sponsored ads, while Prime Video ads are still in the early stage of growth.

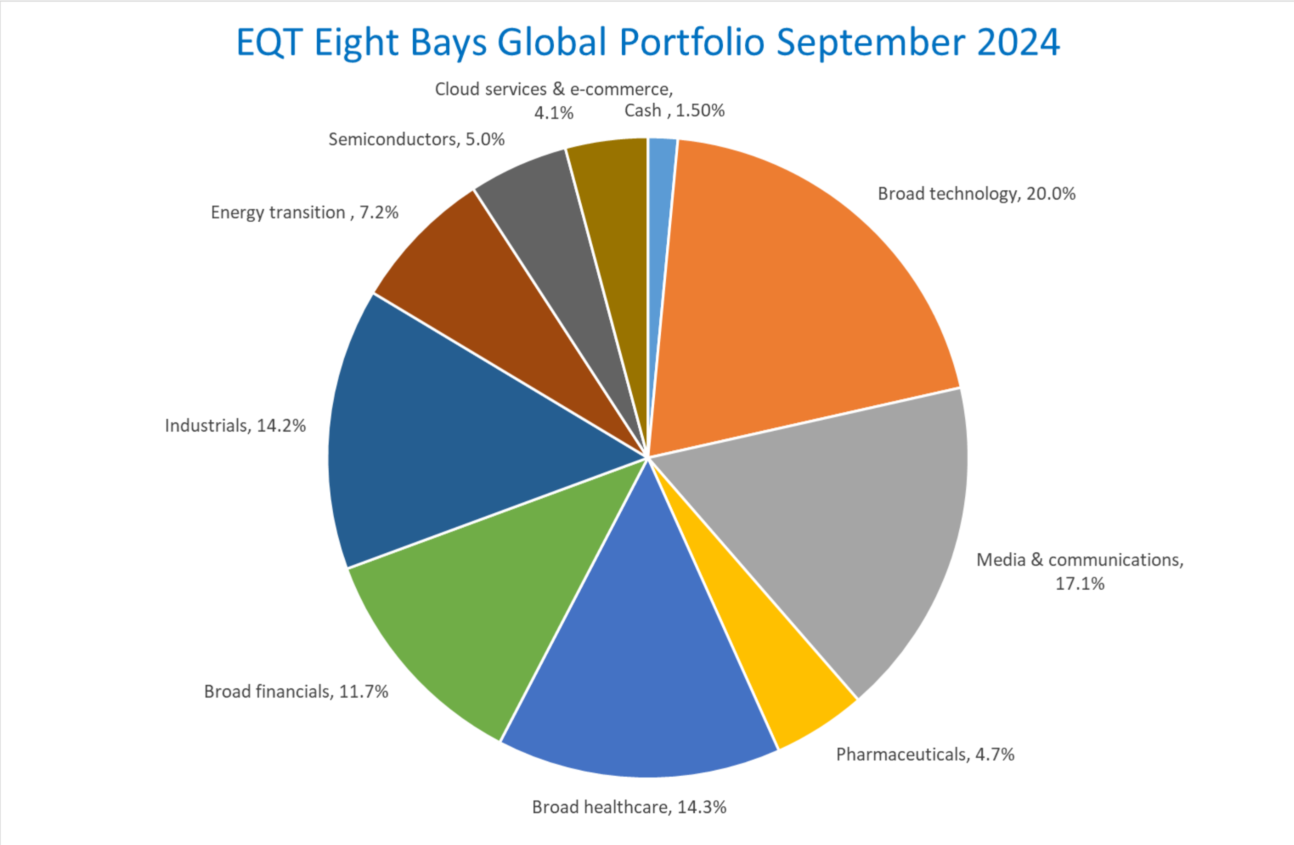
INDIVIDUAL STOCKS: Amazon.com, Inc.

ETF CONSTITUENT COMPANIES

We highlight significant companies in each Exchange Traded Fund (ETF) as follows:

INDUSTRY ETF EXPOSURE	MAJOR COMPANY EXPOSURE
SMART GRID / ENERGY TRANSITION	ABB, Schneider Electric, Johnson Controls, Eaton PLC
SEMICONDUCTORS	Advanced Micro Devices, Broadcom, QUALCOMM, NVIDIA
INFORMATION TECHNOLOGY	Apple, Microsoft, NVIDIA, Adobe
BROAD HEALTHCARE	United Health, Eli Lilly, Johnson & Johnson, Merck
GLOBAL PHARMACEUTICALS	Eli Lilly, Novo Nordisk, Novartis, Zoetis, Takeda
COMMUNICATIONS	Alphabet, Meta Platforms, Netflix, Electronic Arts
FINANCIALS	Berkshire Hathaway, JP Morgan, Visa, Mastercard
INDUSTRIALS	Caterpillar, GE Aerospace, Honeywell, UBER Technologies

SECTOR EXPOSURE



Source: Eight Bays 30 September 2024

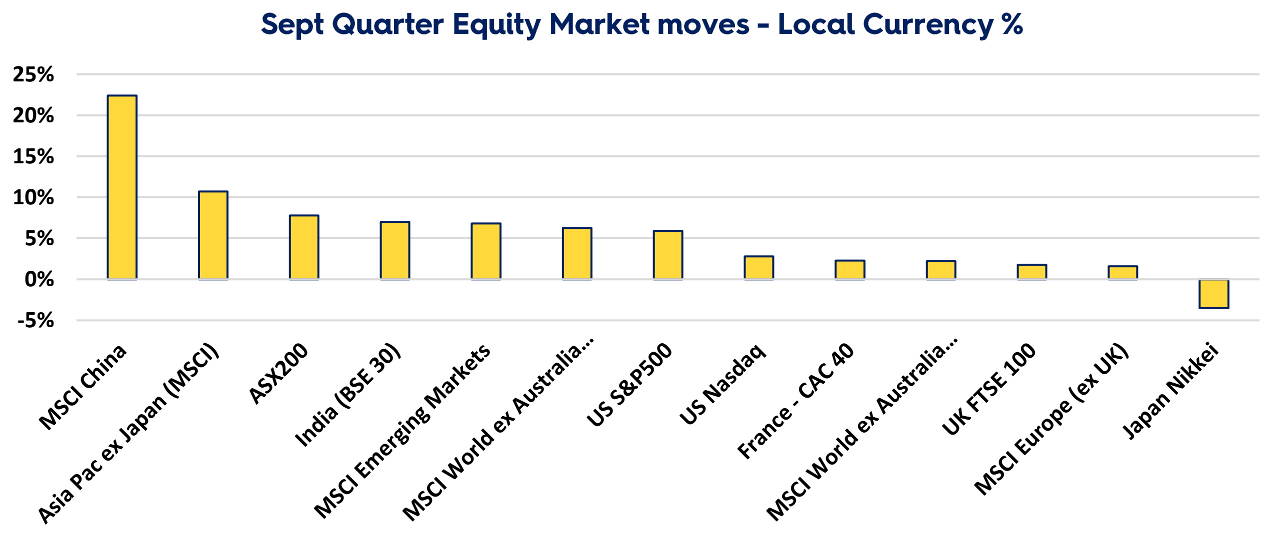
EQT EIGHT BAYS INDIVIDUAL LOOK THROUGH STOCK EXPOSURE

	Holding	Weight
1	Amazon.com, Inc.	4.1%
2	Meta Platforms Inc Class A	3.5%
3	NVIDIA Corporation	3.4%
4	Apple Inc.	3.1%
5	Microsoft Corporation	2.6%
6	Eli Lilly and Company	2.4%
7	Alphabet Inc. Class A	1.8%
8	Berkshire Hathaway Inc. Class B	1.6%
9	Alphabet Inc. Class C	1.5%
10	Broadcom Inc.	1.4%
11	UnitedHealth Group Incorporated	1.2%
12	JPMorgan Chase & Co.	1.2%
13	Netflix, Inc.	1.1%
14	Eaton Corp. Plc	1.1%
15	AbbVie, Inc.	1.0%
16	Johnson & Johnson	1.0%
17	Visa Inc. Class A	0.9%
18	Merck & Co., Inc.	0.8%
19	Mastercard Incorporated Class A	0.8%
20	Walt Disney Company	0.8%

Source: Eight Bays 30 September 2024

MARKET COMMENTARY

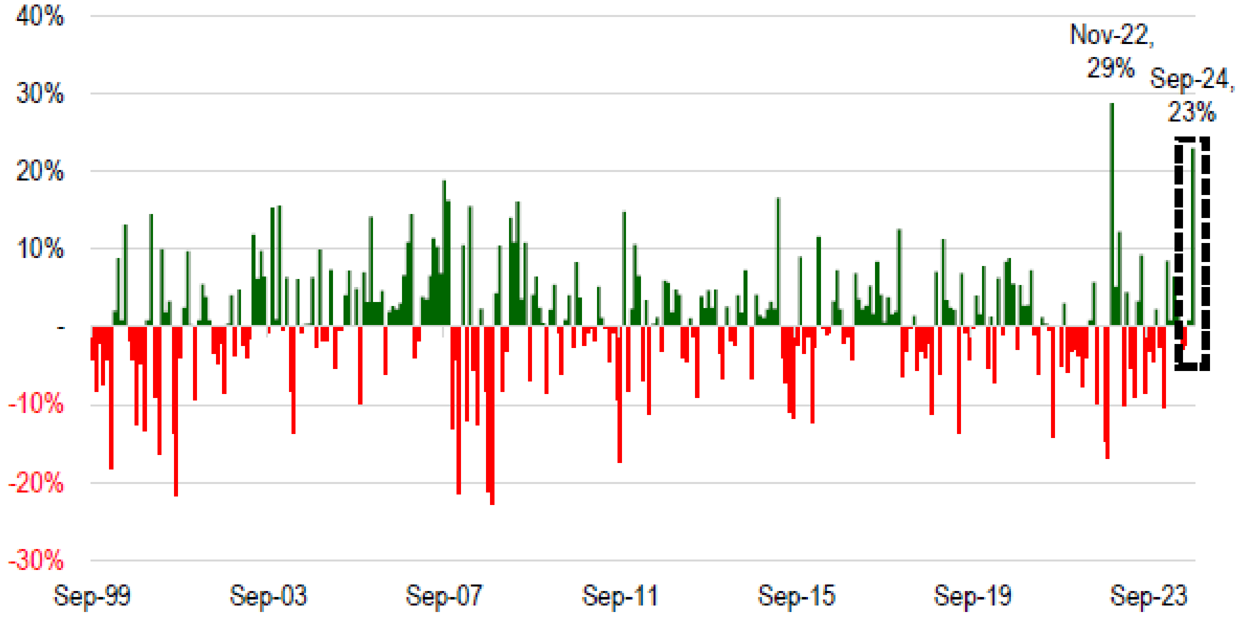
The MSCI World ex Australia Index rose 6.3%. In $A terms, however, the gains were more muted at +2.2%. In local currency terms the Asia-ex Japan index rose 10.7% and US S&P500 rose 5.5%. Emerging Markets outperformed Developed Markets. Relative underperformers included the Korean Kospi (-7.3%), Japanese Nikkei (-4.2%) and UK FTSE (+1.8%).



Source: Equity Trustees

Late in the quarter Asian markets were buoyed by the surge in Chinese (+22.4%) and Hong Kong (21.7%) stock markets following announcements by Chinese authorities of new stimulus. Throughout the quarter Chinese economic data was softer than expected leading the authorities to announce large scale stimulus measures at the end of September aimed at stabilising the ailing property market and lifting consumer confidence.

The stimulus-induced rally led to the second-best month-on-month performance for the MSCI China since 2000



Source: JPMorgan, Bloomberg Finance LP

In the US, the S&P500 hit all-time highs during the quarter. Interestingly the US S&P500 rose 5.5% outperforming the US Nasdaq (+2.6%). A feature of the quarter was a rotation from the large cap US Tech names into sectors that will benefit from lower interest rates and a broadening of economic growth.

Second quarter 2024 US reporting season was again solid. Year-on-year (yoy) earnings growth was 11.7% with earnings positively surprising by 4%. The 'Magnificent 7' posted ~38% yoy earnings per share growth for the quarter versus 32% expected at the beginning of the reporting period. Financials and utilities delivered the strongest positive earnings surprise. Importantly, the US saw a broadening in earnings delivery. While the Magnificent 7 contributed positively, the other 493 stocks are contributing for the first time in six quarters. FY25 earnings forecasts were slightly revised down post reporting season, but still pointed to very strong earnings growth of around 12%.

In USD terms, the best performing sectors within the MSCI World over the quarter were Utilities (+16.9%), REITs/property (+16.2% and Financials (+10.2%). Conversely, the laggards included Energy (-3.2%), Information Technology (1.4%) and Communication Services (+2.6%).

Inflation in the US continued to normalise. The US Federal Reserve cut rates 50bp (0.5%) to 4.75% in September and guided to continued rate cuts over the next 12-18 months. A move to cut rates by the central bank lessened fears about a US recession. Policy rate cuts signalled that not only is inflation more controlled, but that the Fed is looking to support the labor market and lower income households who are hurting from tighter economic conditions. The US Dollar fell against most major currencies and US 10-year bond yields fell 62bp to 3.78%.

Kamala Harris took over from Joe Biden as the Democrat representative for the US Presidency. As the quarter progressed polls became more evenly split between the Republicans and Democrats. While both parties have been vocal about further fiscal stimulus, the Democrat tariff related policies do not appear as onerous on exporting nations but have signalled for higher taxes.

Data out of Europe weakened during the quarter, especially Germany. Europe has been more affected by the softer Chinese economy. The European Central Bank and the Bank of England reduced rates amid stabilising inflation and economic challenges.

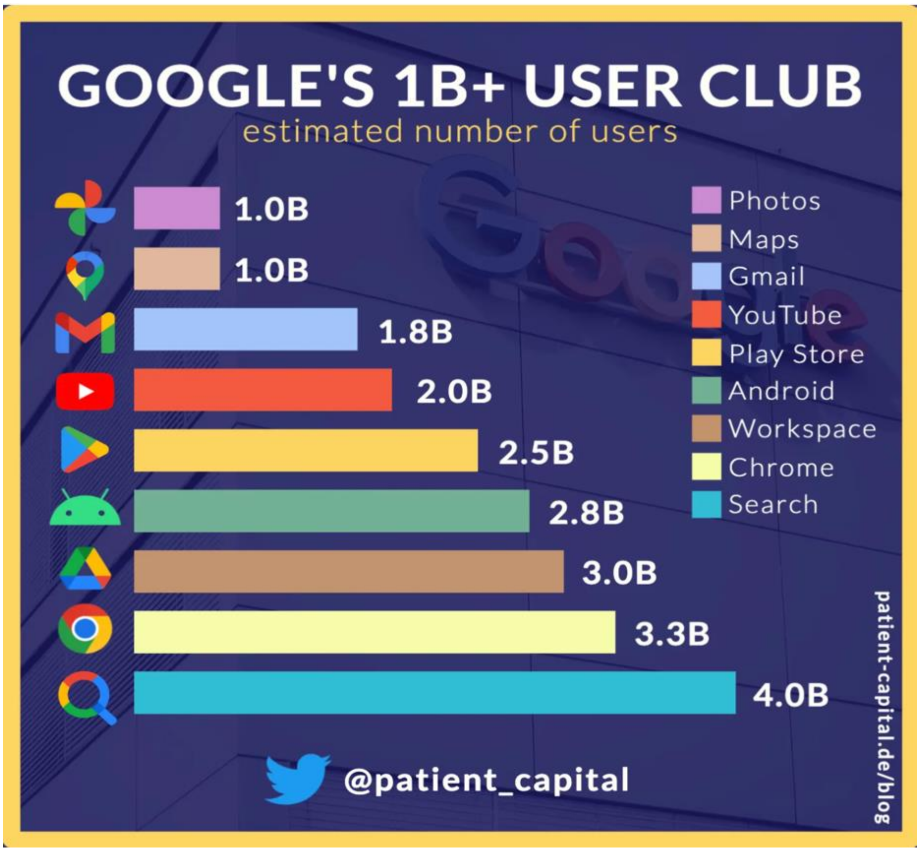
COMPANY IN FOCUS – ALPHABET INC. (GOOGLE): WAYMO LEADING IN AUTONOMOUS DRIVING

The Fund holds an overweight position in **Google** through the Communication Services ETF.

In the September quarter the "Google conundrum" continued to evolve. Financial analysts focused on the interplay of regulation, threats to Search dominance and advancements in Google's Artificial Intelligence (AI) Search Engine and Large Language Model.

In August a Federal Judge ruled that Google's $US 20 billion per annum payment to Apple and others to be the default search engine violated antitrust. Google will appeal, although it's possible that as Search evolves with AI the decision may be more of a loss of revenue issue for Apple. The Judge ruled that Google is a "monopolist", giving impetus to long running Department of Justice efforts to force a breakup of Google, although it's not clear how the proposed remedies involving splitting off Android would work.

From a consumer point of view, Android is one of several products that are effectively free, and in conjunction with Chrome enables influence on internet access points and Search on mobile.



Source: Patient Capital 18th January 2023

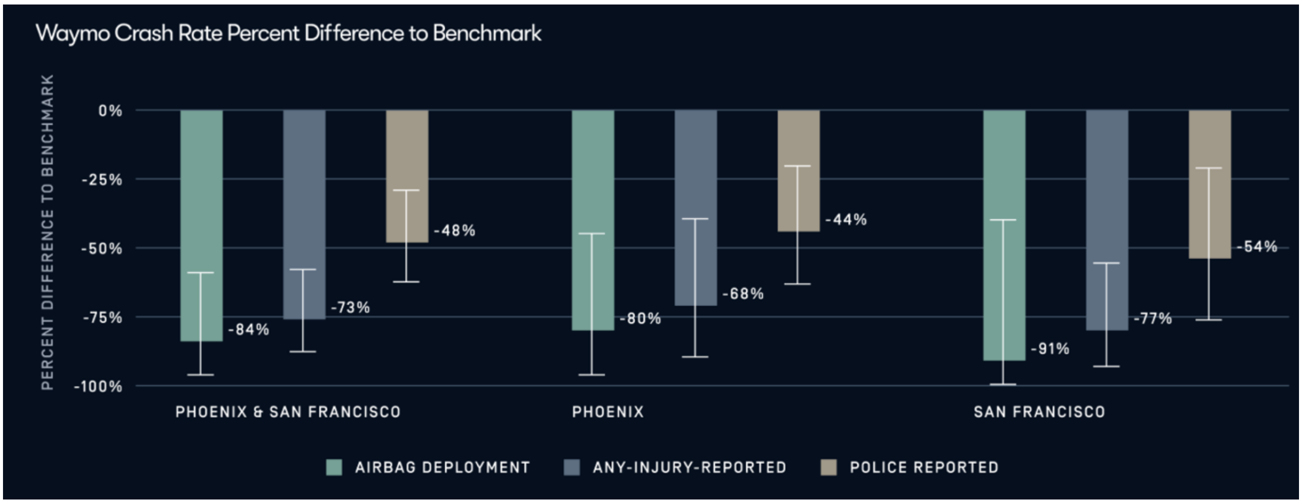
While the other mega cap technology companies are subject to ongoing scrutiny and potential regulatory action, in the last 100 years there have only been two large corporate break ups enforced by government, Standard Oil and AT&T, who were proactive in agreeing the 1982 breakup of the Bell Telephone System into "Baby Bells".

Google has a market capitalization of $US 2 trillion. Its shares currently trade on a (less than market) Price/Earnings ratio of 20, with 80% of revenue derived from Search related advertising. This has a gross margin of 75% so they potentially have a lot to lose from the emergence of competing AI driven search or answer engines.

On the other hand, Google are developing their own AI large language model Gemini and are already integrating advertisements into their AI search engine. They are also adding video and audio capabilities to Search.

Wall Street analysts theorize that in the unlikely event of a Google breakup, the sum of the parts would be higher than the current valuation. A recent Barron's article, **"Alphabet might get broken up. It could be good for the stock"** cites a potential standalone valuation of $US 1.7 trillion for Google Search/AI, $US 450 billion for YouTube (**Netflix** is $US 310 billion) and $US 300 billion for Google Cloud[1].

The emergence of Google's autonomous vehicle division Waymo as a leader in robotaxis, with a rapidly growing 100,000 autonomous rides a week[2] is a business of increasing significance. The September 2024 safety report from Waymo below is based on 22 million miles and demonstrates the superior safety of Waymo to a human driver.



Source: waymo.com 5th September 2024

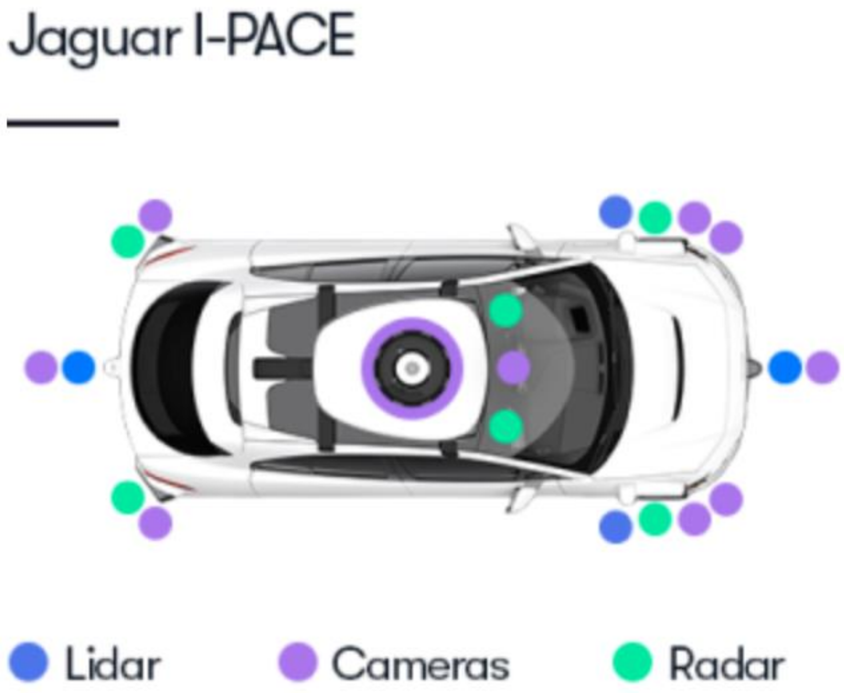
Following Tesla's early October robotaxi event, with launch pushed out to 2026-27, Waymo is now in a very strong position, with 700 cars across San Francisco, Phoenix and Los Angeles[3]. Austin is next with a partnership to use the **Uber** app and there are 25 cities under testing including extreme weather locations such as Buffalo. With the cancellation (Apple, Uber) or delays (GM's Cruise) in similar projects the next to market may be Amazon's Zoox which is planning public rides in Las Vegas later this year.

Longer term, there may be opportunities for Google to license Waymo technology to ride hailing vehicles, trucks and personal cars. This was confirmed by a Waymo spokesperson:

"By building a driver, not a vehicle, we're building a system of multiple applications and routes to commercial scale which means we have multiple routes to huge markets without being locked into a

[1] Barron's: 9th October 2024
[2] Seeking Alpha: "Google's Waymo is leading the US Robotaxi race" 1st October 2024
[3] Forbes: "Waymo has $5 billion, Google AI and Super Fans – can Amazon Tesla and Uber compete" 24th August 2024

single use case, and that our share of the market can grow without the costs of vehicle manufacturing"[4]. Waymo currently uses Jaguar I-Pace vehicles and has recently contracted with Hyundai.



Source: Google

https://waymo.com/blog/2024/09/safety-data-hub/

[4] Fortune "Why China's robotaxi hopefuls face a rough ride in the US" 31st May 2024