STRATEGIC GLOBAL FUND

ARSN 613 886 392   APIR OMF0027AU

MONTHLY UPDATE — April 2020

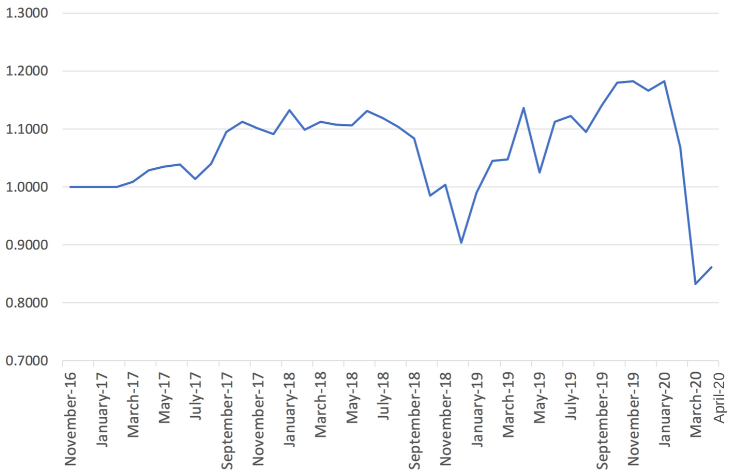
FUND FACTS

Structure	Global Equity Fund
Fund Manager	JBS Investments
Currency	AUD, Unhedged
Unit Valuation	Monthly
Minimum Investment	$20,000
Investment Strategy	Event Driven Global Value
Distribution Frequency	Annually at 30 June

FUND FEATURES

- Specialised Global Equity Fund
- Invests Globally in Strong, Dominant Businesses with Sustainable Competitive Advantages
- Benchmark Unaware
- Relatively Concentrated Portfolio
- Maintains Long-Term Investment Horizon

PERFORMANCE CHART



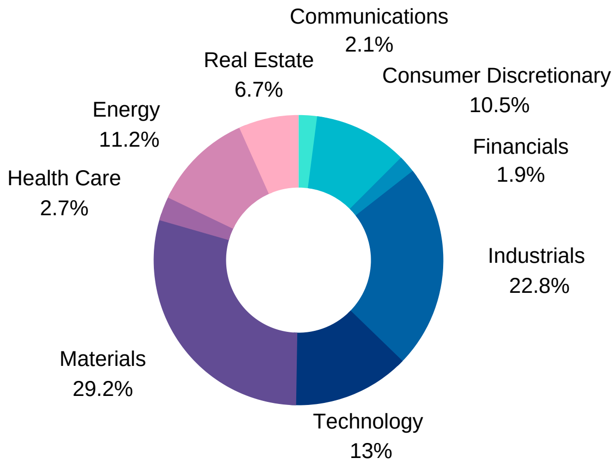
NET PERFORMANCE

1 Month	-3.34%
3 Months	-27.21%
6 Months	-27.05%
1 year	-24.06%
2019 Return	29.20%

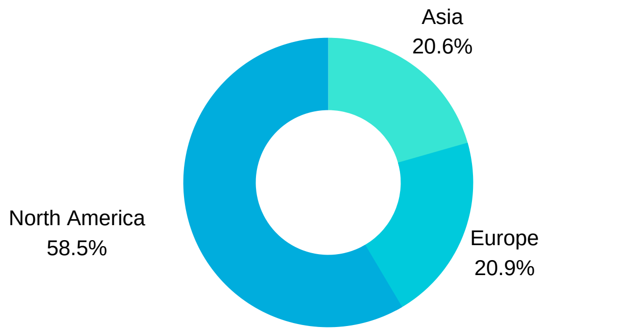
TOP TEN HOLDINGS

Company	Sector
GAN	Consumer Discretionary
Tiffany & Co	Consumer Discretionary
Scorpio Tankers	Energy
API Group	Industrials
Global Port Investments	Industrials
Novorossiysk Sea Port	Industrials
Magnachip	Information Technology
Technology Data	Information Technology
Sandstorm Gold	Materials
Shinoken Group	Real Estate

INDUSTRY EXPOSURE



GEOGRAPHICAL EXPOSURE



SGF Update

This report is later than usual as we have prioritised idea generation over the past few months. Fund turnover has been a lot higher than typical as we have attempted to take advantage of widespread market dislocation to upgrade the portfolio to holdings that promise higher returns without higher risk. There are a lot of opportunities at present and we feel our skillset is well suited to working through to find the most compelling investments. We are continuing to adhere to our commitment to transparency by updating the investment case for each of our core investments on the website. We recently added our write-ups for **Change Healthcare** and **Crown** (discussed below) and further detail to **Sandstorm Gold**.

Overall comment

Although nobody has a crystal ball regarding the current pandemic, by carefully considering economic and medical developments and making sound investment decisions, we are confident of navigating the current market dynamics. The incredibly volatile, fast-moving markets we have witnessed have provided the greatest number of decent opportunities that we have witnessed since the GFC. Importantly, though, the window to capitalise on bargains has proved to be very short necessitating a nimble and fast approach.

Analytical Framework

Given the current market and economic conditions, it is important to have a clear framework for analysing companies. As a starting point for each business, we answer the following questions split across three time horizons:

Short term	● How will the business be affected by the shut down? ● What will free cash flow generation and debt levels look like in a downside scenario? ● Is there a risk of business failure? ● Will the company need to raise money to survive either via debt or equity? ● What options are available to management to adapt to the situation?
Medium term	● What shape will the company be in when the crisis ends? ● Will they be able to take market share from weaker competitors? ● How will the competitive landscape change post crisis and will consumer behaviour be different? ● Will there be lingering risks?

Long term	● Is this a special, irreplaceable business doing something essential? ● How does such a year impact the fundamental value of the company as implied by its long term cash flow generation? ● Will it lead to a longer-term stronger or weaker competitive position? ● Is the long term valuation discount attractive enough to generate outstanding long term returns?

PORTFOLIO UPDATES

GAN

We entered a new position in **GAN Plc**, a software provider to sports gaming companies in the US, prior to it changing its listing from London to New York. The stock more than doubled over our two week holding period - we sold it to focus on new ideas once the valuation began looking fully priced. When you receive three years' worth of returns in two weeks it typically pays not to overstay your welcome!

Crown

We re-established a position in **Crown Holdings**, having had a successful prior investment in the business. Crown is a leading manufacturer of aluminum and steel cans for food and beverage products. The core business has performed very well during the quarantine period. Crown is a very high quality business with substantial barriers to entry.

The opportunity in Crown is driven by two factors:

- A strong industry trend towards increased use of cans
- An attractive valuation as the market worries about Crown's leverage

We are comfortable with the second point given the significant free cash flow Crown generates and we expect the company to continue its debt paydown.

The beverage can industry is very concentrated with just three main players: Crown, Ball and Ardagh. Crown is the number two player in the beverage can industry with between 20% and 30% market share in each of its markets. As a result of stagnant demand, can volume had been flat for the past few decades and there was little excitement in the industry to inspire the addition of new can capacity.

This picture started to change meaningfully in 2019 when demand increased dramatically driven by a focus on sustainable packaging and new product innovation. A backlash against plastic bottles is driving the increased use of cans. Additionally, craft beer, ready-to-drink coffee, filtered water and other new products are driving outsized demand for cans. We have spoken to a number of craft breweries which left us with the impression that their use of beverage cans will likely increase 5-fold as compared to glass packaged as compared to the can/glass split 4 years ago. The result is that demand for cans outstrips supply by a meaningful amount.

Crown trades at a discount to its closest competitor, Ball. Part of this is due to the fact that Crown also owns a business called Signode which is more exposed to the wider economic environment than its core can business. However, we are comfortable with this business and believe that the market is overestimating its challenges. In any event, Signode only comprises 15% of the overall company so it is not sufficient to impact the overall business. It is also possible that Crown will elect to sell Signode which would be beneficial to its valuation.

Our price target for Crown is $110 as compared to its current price of $63 (and the Fund's entry price of $62).

Change Healthcare

The Fund established a position in **Change Healthcare** which is a US based technology company that owns the largest medical claims clearinghouse network and several leading software platforms. Change Healthcare is a collection of misunderstood, defensive, high-quality healthcare software businesses. The company has a number of divisions which do everything from managing the complex US health claims process of getting accurate claims to the right payer to monitoring against fraudulent claims. The business is very high quality as demonstrated by the following characteristics:

- 88% of revenue is recurring
- Client retention rate of close 100% due to very high switching costs
- 25% free cash flow margins for the entire business
- 50% cash flow margins in its better growing businesses that compose over half of value in the business
- Minimal economic sensitivity, modest pricing power and volumes tied to patient claims
- Dominant market share, often exceeding 50% in its core products

Change Healthcare was formed via a complex merger which has served to obscure the underlying value. Despite the high quality nature of its business, Change Healthcare is trading at half the price of its public market competitors at around 9x free cash flow in contrast to competitors trading at over 20x free cash flow which presents a meaningful upside of over double the current price.

MagnaChip

Portfolio holding **MagnaChip** announced excellent news in the form of the sale of its foundry business for $435m. We had long anticipated this event despite it taking a least a year longer than we expected. We have remained patient with the investment as we believe that the MagnaChip story for investors now becomes a lot clearer. With the sale of the foundry, MagnaChip is now left with significantly less debt and its better business division - being its OLED division. This business has delivered 43% revenue growth year over year in the latest quarter. As OLED becomes the dominant form of screen for phones and televisions, MagnaChip should continue to benefit.

We will write to update you again next month. Thank you for entrusting us with your savings and we wish you and your family the best of health.