Investor Report

31 December 2021

STRATEGIC GLOBAL FUND
ARSN 613 886 392   APIR OMF0027AU

To Our Unitholders

The core proposition of SGF is very simple: it makes long term investments in strong companies at attractive prices. The cornerstone of our investment approach is rigorous in-house research and creative insight combined with an opportunistic investment style.

This report is divided into: (1) market commentary and an explanation of how and why the portfolio is currently positioned as it is; (2) updates on our largest holdings; and (3) summaries of newly established positions.

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HALF YEAR REPORT   December 2021

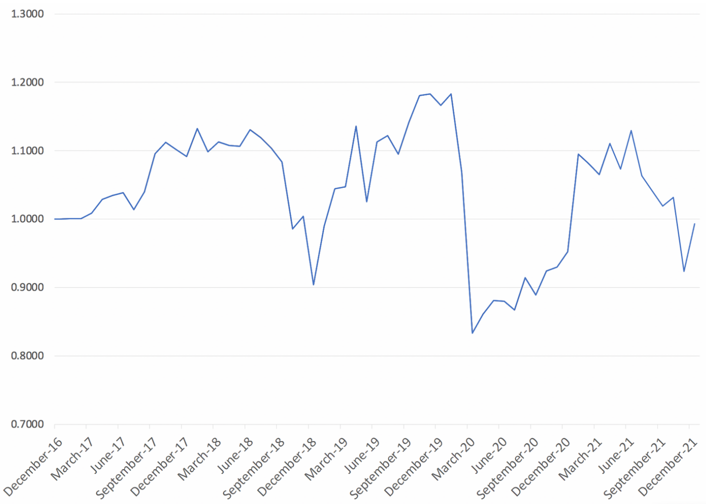
FUND FACTS

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



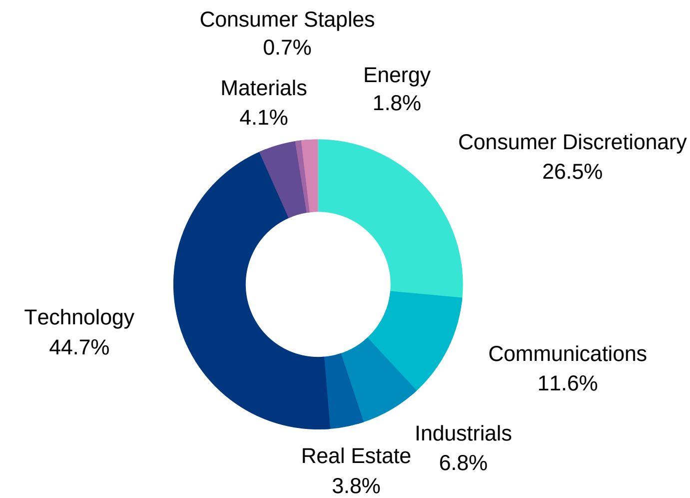
NET PERFORMANCE

1 Month	7.61%
3 Months	-2.56%
6 Months	-12.08%
1 year	4.78%

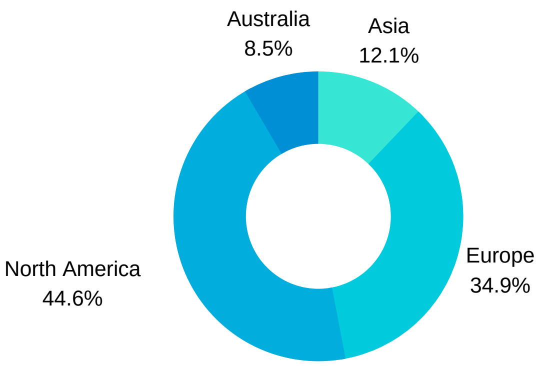
TOP TEN HOLDINGS

Company	Sector
Alphabet	Communication Services
UMG	Communication Services
Evolution Gaming Group	Consumer Discretionary
Hunter Douglas	Consumer Discretionary
Mo-Bruk	Industrials
Open House	Real Estate
Coinbase Global	Technology
Digital Turbine	Technology
Kaspi Global	Technology
Vizio	Technology

INDUSTRY EXPOSURE



GEOGRAPHICAL EXPOSURE



Observations

Many of our core positions have only recently been added to the Fund (in the past half year). There is always a lag between establishing a position and when the investment bears fruit. **Hunter Douglas**, (discussed in detail below), is a good example of this. The price did not move much since we established the position and recently retreated slightly. Then, overnight, a takeover offer for the company was made and the price increased by 70%. The patience required tends to be higher for higher quality companies as the starting valuation point is typically higher.

The market and our holdings were volatile in the quarter. The main concerns were the return of inflation with resultant expectations of higher interest rates and, frankly, the decline itself. Share price volatility impacts company valuations of course but has no impact on how the underlying business is performing. And we focus here: are earnings growing, how is the growth outlook and what is our conviction level in these being achieved. Across the board, we are very happy with how our businesses are performing.

To paint a picture of how we visualise the overall portfolio, we tend to think of each holding fitting into a particular investment model. Bear with us as our categories might only make sense to us (and the names don't roll off the tongue!):

- **at scale growth** - larger size leads to a more dominant business with accelerating growth
- **mispriced growth** - growing companies priced like stagnant ones
- **obscured crown jewels** - where one business division masked a far better one
- **natural monopolies**
- **dominant intellectual property owners** - brands or IP that support high margins
- **lowest cost operators**
- **low risk turnarounds**
- **network economics beneficiaries**
- **large discount to asset value with pending return of capital.**

For the vast majority of the portfolio return on capital rates are high (a sign of high quality) and growth rates are strong. For discount to asset investments these factors are less important. We have few lowest cost operators and would love to find some. The problem is that we are reluctant to pay up and these types of companies are priced at extremes at present. For example, low cost leader Costco trades at a P/E of 45x. The "at scale growth" category is probably the most alluring to us as it is the type of company that can continue growing for a long period of time. Our categories are not mutually exclusive and sometimes an investment will fit a few. We find that thinking about the portfolio in this way is more useful than the typical disclosure of disposition of assets by geography and industry (although others may differ in their view on this).

Our Portfolio Companies

Our investment approach gives us the freedom to make investments across a broad spectrum of industries, wherever we see the most compelling opportunity.

Position categorisations

In the past six months, we have gotten past the worst of the Covid crisis (fingers crossed). During that time we were more focussed on opportunistic investments and we have now moved to a core of the following positions which we intend to hold for the very long term (overleaf):

Company	Category	Commentary	Investment thesis
Digital Turbine	At scale growth	Digital Turbine is the largest independent on-device integrated mobile app installation and in-app advertising platform in the world with a presence on nearly 1.8 billion mobile devices worldwide.	The company will generate over $1 billion in revenue in 2021 and is on track to hit $4 billion in revenue and $1 billion in EBITDA by 2024. Profitability is increasing even faster than revenue due to the significant operating leverage the business enjoys. Our expectation is for the stock to be worth 3x to 4x its current market cap of $6 billion over the next few years.
Vizio	Obscured crown jewels	Vizio is the 3rd largest manufacturer of televisions in the US. This reputation as a boring television manufacturer masks its small but fast growing crown jewel - its platform business which delivers ads to TVs.	Vizio's platform segment was only established in 2018 yet it is growing at over 100% per year.. Investors are yet to meaningfully price in the potential of the platform division. Our price target represents a double over the current price.
Universal Music Group	Dominant intellectual property owners	UMG is the number one music company and is home to the most iconic and influential labels and brands in music.	UMG holds irreplaceable intellectual and must-have content that cannot be replicated. We view the business as a toll road on the inevitable growth of music streaming.
Evolution Gaming	At scale growth / Low risk turnaround	Swedish based Evolution is the world's leading provider of online casino solutions to gaming operators.	Live Casino is the fastest growing online casino segment, with an annual growth rate of 38% in the past 7 years. It is facing some temporary problems that we expect to be resolved so investors can return to focus on the company's growth.
Mobruk	Natural monopoly	Poland's leading waste management business	A natural local monopoly type business in a dirty industry, Mobruk should continue growing at 30% per annum driven by large scale clean up projects and limited meaningful competition.

Portfolio updates

Update: Hunter Douglas

The Fund has some happy news with core holding Hunter Douglas on the last trading day of the year. To recap the story of our investment in Hunter Douglas; the company is the worldwide leader in window blinds and coverings as well as a range of building products related to windows. The company is family owned and was the original creator of the aluminium window blind in 1946. Its business is a beneficiary of the worldwide building boom but an attempt by the founding family to take the business private distracted investors from the fundamental investment merits of the business. At our purchase price, the company was valued at around half the multiples of inferior competitors.

The majority owned Sonnenberg family initially tried to take advantage of the Covid crisis to buy out the minority shareholders at a cheap price. After both the initial takeover offer and the subsequent slightly higher bid were rejected, the share price was stagnant. We maintained our patience, reasoning that the family would either give up trying to buy back the business and the market would rerate the price higher or the family would have to come back with a "knock out" bid at a dramatically better price.

In the end, on the last trading day of the year, the company received a takeover offer at a massive 70% premium to the last closing price. Our average cost was $88 and we are happy to sell our shares into the offer which is priced at $175. The outcome is a fantastic one for the fund and we are grateful to all of the fellow minority shareholders that fought for a fairer takeover price - which was vindicated with a final price nearly three times higher than the initial offer which the family claimed was "fair value".

The Fund gained 93% from its investment in Hunter Douglas over the holding period.

Closed position: Betterware

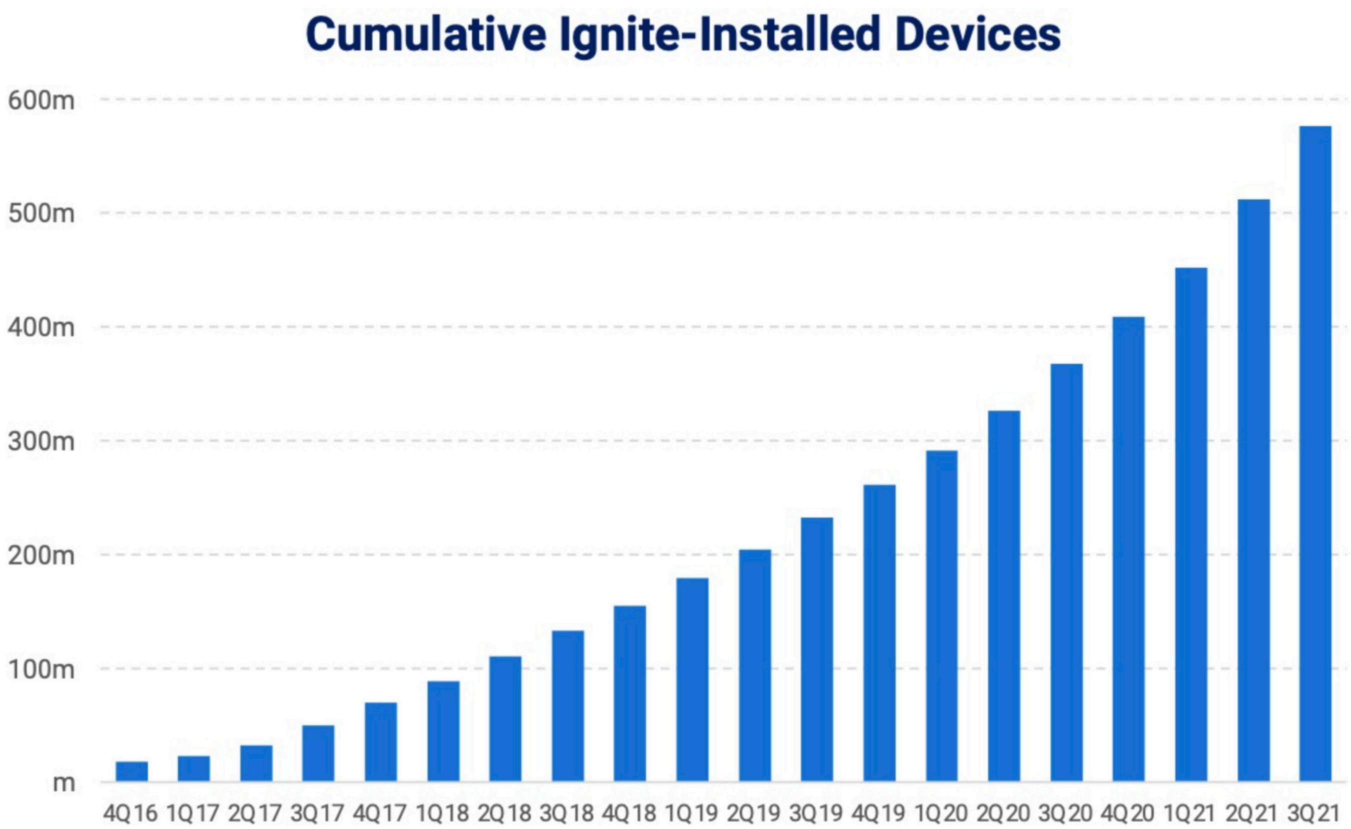
The primary negative bit of news was Betterware ((previous category: mispriced growth). The most recent results were disappointing as growth slowed meaningfully in stark contrast to recent management reassurance. It may be that this is just a blip given its long term history of growth. The investment was a profitable one for the fund but we could have done a better job of taking profits earlier. We think that the sell-off was overdone but at the same time, the growth was a key plank of our investment thesis. We believe there are better opportunities elsewhere for the Fund so we took profits and moved on.

Portfolio updates cont.

Update: Digital Turbines

Business outlook and share price diverged during the quarter in the case of Digital Turbine (category: at scale growth). Its primary costs are employees and web hosting. It is a very asset light business. This means that scaling the business doesn't require much more spending and hence it can grow at scale. This is evident from the company's latest guidance which calls for revenue increasing by 4x but earnings increasing by 10x. The business serves a huge market and we believe the next year should see a marked acceleration in earnings growth. This is exciting. The stock trades at 5.7x our estimate of net earnings in three years' time.

Digital Turbine only has 20% of the market for Android phones (their software is directly installed on 750m Android phones worldwide, with 1.8b monthly users). Digital Turbine just won a contract with Samsung covering Europe which should add a further 200m phones. This is a typical pattern in which a customer will trial a certain geography with Digital Turbine and then add new territories over time. For example, TikTok initially started in Latin America as a trial and then added the rest of North America. We like this aspect of the business as a lot of its growth will come from its existing customers. The growth has certainly been relentless:



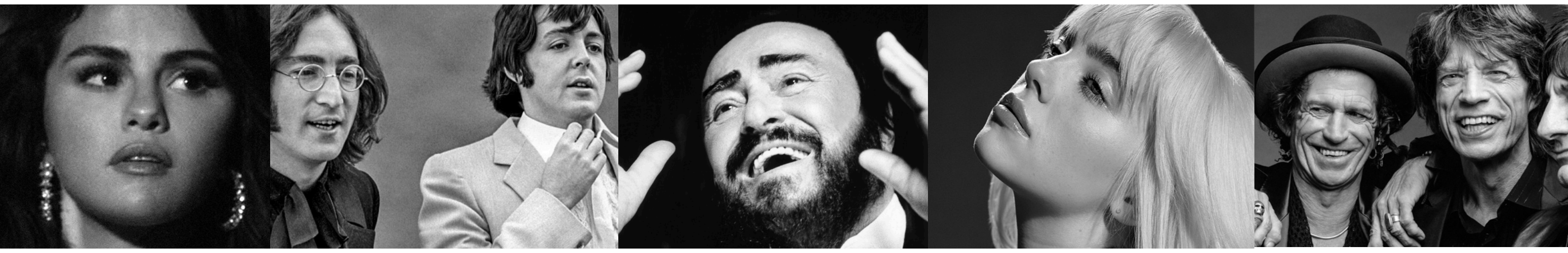
Portfolio updates cont.

Another tailwind for the business which has not been discussed much is the recent privacy changes made to Apple's iOS which has driven more advertising to Android devices. Although cloaked under the guise of "consumer protection", the real reason for Apple's privacy stance is to force more business through its App store. Previously, as an example, you would see in-app advertisements for games that could be downloaded outside of the Apple App store. Apple has now stopped this to "protect" consumers and ensure it collects a 30% tax on sales via the App store.

In any sales process, it is always the case that the less steps, the better. When you reduce friction as part of the process, you make more sales. In this light, Digital Turbine's SingleTap business has grown from generating a 7 figure amount of revenue per year to 7 figures per week in the past 18 months. It is early days for the roll out of this product. Consumers are five times more likely to install an app when only one step is required. This sounds simple but isn't as evidenced by Digital Turbine patenting its process after a long period of research and development. The company is pushing this product for payment solutions. To use an example, you could be in an online store shopping and be given the option of paying with PayPal (even if you are not signed up to use PayPal). Using the SingleTap technology, with one click you can pay with the PayPay and the app is installed on your phone in the background - you don't even have to exit the browser. There is a very long runway to grow this part of the business. There is talk of licensing SingleTap to Meta (Facebook) which would be hugely beneficial. APPS also has the potential to enter new markets such as EVs, smart watches and smart TVs using Google's Android software. None of these additional revenue streams are factored into our expectations. Great companies are always innovating and this is a good example of why we were drawn to Digital Turbine's corporate culture.

The shares of Digital Turbine seem to be divorced from the business operations. During the quarter the shares ran up to $91 ahead of earnings (which were excellent) and then retreated to $52. We couldn't give you a reason why but we were happy to be given the opportunity to acquire more shares.

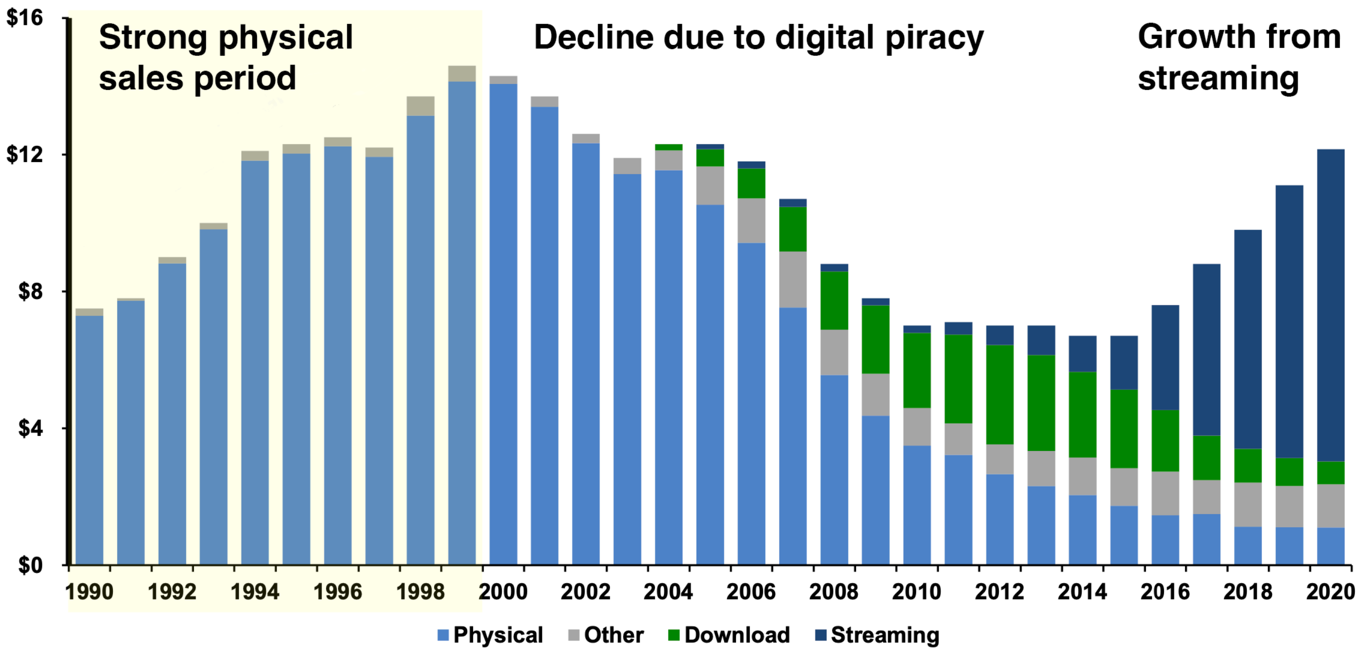
New position: Universal Music Group



The Fund initiated a new core position in **Universal Music Group** ("UMG"). UMG is the number one music company in the industry by market share with a 32% global market share in recorded music. UMG holds irreplaceable intellectual and must-have content that cannot be replicated. It is home to the most iconic and influential labels and brands in music and owns the rights to music from artists such as Elton John to Eminem, Lady Gaga and the Rolling Stones among many thousands of others. In fact, UMG holds all 10 of the top 10 global artists. It is twice the size of its nearest competitor.

UMG is at the centre of the dramatic transformation going on within the music industry. The music industry previously was entirely reliant on the sale of physical CDs which declined due to widespread digital piracy. Now, however, the industry is now enjoying a renaissance as streaming services make paying for music a great value proposition for the consumer. Having 60 million songs at your fingertips on your smartphone, connected car or smart speaker is amazing. As many of those reading this know, once you subscribe to a streaming service, it is very difficult to cancel the service. It tends to be very sticky. This has changed the dynamics of the industry:

U.S. Recorded Music Industry Revenue ($bn)



Source: RIAA, Pershing Square

Universal Music Group

The industry is no longer in decline but is growing on the back of the global growth in music streaming subscribers. The overall industry dynamics are compelling for the music licence holders, such as UMG. The other members of the industry's big three are Sony and Warner Music. Together these companies hold 70% of all content. Along with Spotify, large technology companies led by Google, Amazon, Apple, Tencent are all spending heavily on their respective streaming offerings. The nice thing for UMG is that it doesn't have to advertise to gain customers in the way that Spotify does, but is a direct beneficiary of such growth. The other critical industry dynamic is that the streaming services require all of the content owned by the big three music companies - they can't pick and choose as consumers are used to having all available music on one app. This creates a powerful dynamic in favour of the music companies which have no need to compete on price. The primary competition can be seen currently in the bidding war to lock up back catalogues of famous artists, such as the recent acquisition of the music catalogue of Bob Dylan by UMG for over $300m.

The very best (and rarest) businesses are akin to toll roads (or taxes) possessing several favorable characteristics for their shareholders: e.g., a monopoly-like market position, durable pricing power and predictable recurring cash streams. All these are attributable to the fact that there are very few alternative routes to compete with the toll road loaded with heavy traffic. There is no avoiding paying the toll.

We see UMG in this light - it is like a tax on one third of all music. Interestingly, UMG now has a better business model than ever before as getting paid a fee on streaming services is far more profitable than the physical recorded music business ever was. Savings on manufacturing and distribution costs more than offset slightly higher royalty payments to artists. There are also no risks of printing too many copies of a CD which doesn't sell. The growth of music is further supported by its use in social media platforms and exercise apps. Many such platforms have only recently begun to pay royalties for music meaning that there is a strong tailwind for further revenue increases from this source.

Universal Music Group

One interesting point to consider about UMG is to compare the music streaming business to that of video streaming, such as that offered by Disney+ and Netflix. In our view, the music streaming business is superior due to a more limited number of key content providers, music is consumed again and again (unlike most tv shows and movies - with some exceptions - which are watched only once). Music retains its value over time unlike TV shows and movies (outside of certain icon series). It is easy enough for Netflix to create new video content but it is nearly impossible for Spotify to do the same with music. There is a benefit to the likes of Spotify though from this arrangement as it saves it from having to spend a large amount of money building content. The substantial cost of content also keeps out new entrants which cannot afford to license all of the required music content. This creates a mutually beneficial virtuous circle amongst the music industry players. Additionally, unlike Netflix, which doesn't have to offer all available movies and tv shows, the music streaming apps must offer essentially all music available.

We are attracted to the simplicity of the business - which is not dependent on outside factors to perform well:

- UMG earns royalties each time a song is streamed via license agreements with streaming services
- UMG licenses songs to be used in film, television and increasingly video games and receives royalties when a song is performed publicly

We think there are many wonderful attributes about the business, namely:

- Oligopoly-like market structure with three main players leading to a stable competitive market environment
- Simple, predictable business
- Industry-leading financial performance
- Strong free cash flow generation
- Strong balance sheet
- Large market capitalisation
- Well run business with outstanding management

We believe UMG's long-term investment strategy should generate double-digit revenue growth and over 20% operating income growth. It is best thought of as a royalty on the inevitable rise of music streaming. There are not many businesses you would want to own forever, but UMG fits the bill.

Evolution

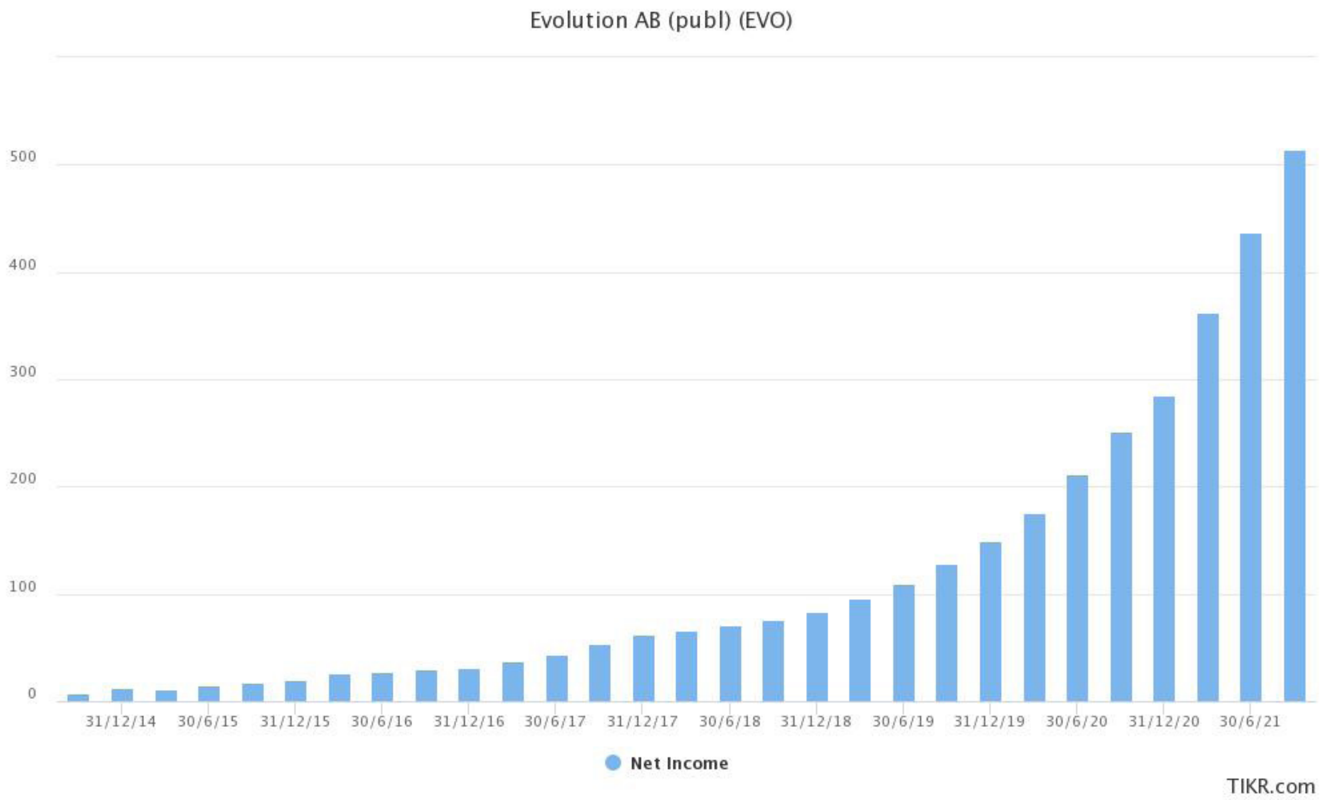
The best time to establish a position in a world leading company is when it is going through a temporary, yet fixable, problem. With this in mind, the Fund re-established a position in **Evolution Gaming** ("Evolution") which we previously owned. Evolution provides live casino games to online casinos and dominates its markets. This previous highflier came back to earth following allegations made by a competitor that the company was offering live dealer table games online in countries where such gambling isn't permitted. It is alleged that this business is in contradiction of US sanctions. Our research indicates that as Evolution provides its services only on a business-to-business basis, it is actually the end online gaming business that is responsible for offering the gaming in a particular market. We were excited to again own Evolution, which has industry leading profit margins and dominates its segment of the industry.

It offers a live casino experience, with an actual person dealing the casino game which is then streamed from one of Evolution's studios to the customer's digital device. In a normal casino environment only so many players can physically fit around each table which naturally places a limit on the number of players served by each dealer. By contrast, Evolution leverages the fixed cost of each dealer across many hundreds of online players leading to a far more profitable business than a physical casino. This also means that the business is very scalable. The other wonderful aspect of the business model is that its typical arrangement entails its customer, the online gaming provider, having to pay for all customer acquisition costs but with Evolution taking a cut of around 10% of revenue generated by the online gaming customer. At the same time, if the house loses, Evolution does not share any of that loss. Whether the outcome is heads or tails, Evolution wins.

Evolution benefits from a virtuous circle stemming from its significant scale advantage. This enables it to invest more in R&D to develop new games than its competitors. As the cost is split across the most users, the result is that the actual spend per player will also be lower (and therefore more cost effective) as compared to its competitors with less players. This makes the company very difficult to compete against.

Evolution

Growth has been nothing short of amazing, with Evolution growing its net profit from €7m in 2013 to over €514m in the previous 12 months.



Future growth should be supported by:

- New igaming markets opening up driven by the need to catch up to consumer preferences and need to generate additional taxation revenue
- Continuing to offer the best product
- Addition of new games developed by Evolution
- Resolution of the regulatory enquiry

The Fund established a position at 1049 kr and the shares currently trade for 1182 kr (Swedish kronor).

STRATEGIC GLOBAL FUND

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