Investor Report

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.

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HALF YEAR REPORT   December 2022

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
- Aims to Invests Globally in Dominant Businesses with Sustainable Competitive Advantages
- Benchmark Unaware
- Relatively Concentrated Portfolio
- Maintains Long-Term Investment Horizon

PERFORMANCE CHART

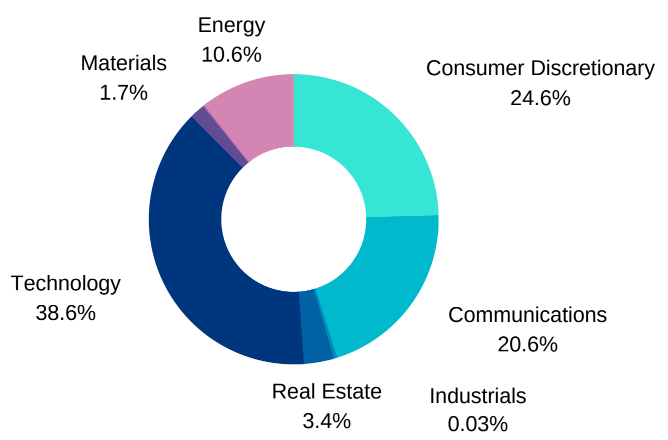
NET PERFORMANCE

1 Month	-4.20%
3 Months	-0.42%
6 Months	2.44%
1 Year	-38.38%

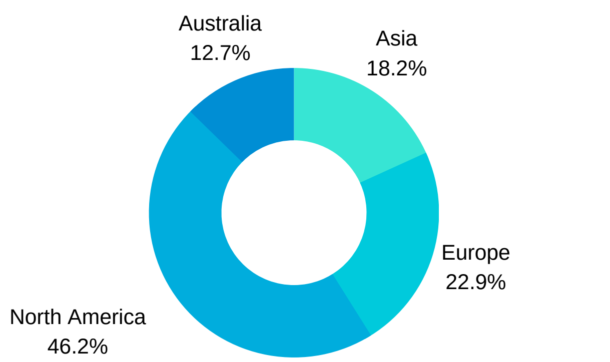
TOP TEN HOLDINGS

Company	Sector
Alphabet	Communication Services
Universal Music Group	Communication Services
ACV Auctions	Consumer Discretionary
Evolution Gaming	Consumer Discretionary
Rumbleon	Consumer Discretionary
Whitehaven Coal	Energy
Yancoal Australia	Energy
Digital Turbine	Technology
Kaspi Global	Technology
Vizio	Technology

INDUSTRY EXPOSURE



GEOGRAPHICAL EXPOSURE



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Observations

Opportunities emerging

Coming into the new year, the current economic outlook has us **energised** as the environment is presenting us with more opportunities for great investments than we have had in a long time in our view. The zero interest rate environment has essentially ended. This means that companies are refocussing on things that matter, such as earning adequate returns on investment, which didn't matter to them as much in boom years. There are many companies that deserve to have sold off and likely will continue to decline in value. But there are now many other companies that have declined in price in sympathy which can be unwarranted given the underlying business.

The Fund's investment strategy is long-term in nature. Provided that we maintain our focus on investing in high quality businesses at sensible prices with predictable cashflows, the Fund can (and should) ignore short term market volatility. In this light, we view recent performance as being in the nature of a temporary dislocation due primarily to market dynamics. In contrast to the direction of some of our core holding's stock prices, many of the underlying businesses have made solid progress. Such positive results are not always reflected in the share price in the short term, but over a longer time period should result in strong shareholder returns. In every period like the present, it is important to focus one of the fundamental truths of investing: **the lower the price paid, the better the long term return**.

We recently have seen some genuine value emerging in individual companies. We believe some are fantastic businesses, and we think are almost certain to grow earnings by over 15% per annum in the next three years and available for purchase for less than the average business in the market. Encouragingly, the more we look the more we are finding. We remain nimble and have a large cash balance to deploy.

We have build some new positions in companies we have been following and researching for some time, which we detail further below.

Portfolio News

In the Portfolio:

Swedish Match was successfully taken over by Philip Morris giving the Fund a good return in the short term. We believe that Swedish Match will continue to profitably grow at fast rates over the next decade but, alas, we won't be shareholders. We took profits on **Capricorn Energy** after a revised takeover offer was made.

Businesses owned by the Fund continue to execute well in most part and many of them had an exceptional year. We have much to praise with the management teams of the businesses we're invested in. For example:

- Recent results for **Universal Music Group** continue to support our view that it is the world's best music company. Revenue of €7.3 billion was up by 15.6% year-over-year and gross earnings up by 10.2% with strong growth across all segments. As we have written before, no music streaming service can exist without paying UMG. As revenues grow, UMG's cost base is largely fixed so profit margins should expand. We expect that even in a recession the business will be resilient as having access to tens of millions of songs on your phone for a modest monthly subscription represents great value. Given its long runway for sustained earnings growth, we believe that UMG's current valuation underprices this unique company.

- **Evolution Gaming** has faced increased interest rates, growing inflation, signs of a weakening economy in some markets as well as an uncertain geopolitical situation. Inflationary pressures include the cost in supplies, electricity, transport and also upward pressures on salaries. Despite all of this, Evolution Gaming has delivered a strong revenue growth in the third quarter of 2022:

  - Revenues increased by 36.5%
  - Gross earnings increased by 38.1%

  For the nine-month period, Evolution's gross profit margin was 69.5 percent. Very few businesses in the world have close to such a margin, let alone ones that are growing at a rapid rate. The online casino industry continues to grow world-wide and Evolution Gaming's growth path in a long term perspective remains very strong.

- **Kaspi** reported outstanding results in the latest quarter with the following highlights:

  - Revenue up 39% on a year on year basis
  - Net profit up 30%

  The payments (51% growth in net income) and marketplace (59% growth in net income) divisions lead the growth. Kaspi has been buying back its undervalued shares, having bought back $96m worth already this year with another buyback of $100m authorised. Kaspi shares have recovered much of the recent July lows of around $43 shares to currently trade around $72. The long term outlook for the business remains compelling with long term growth of 30% per annum continuing. This growth outlook is not reflected in its forward price to earnings multiple of 12x.

New Positions

Deere & Co. (DE)

We established a position after the quarter end in **Deere & Co**, the largest global manufacturer of agricultural and construction equipment. It operates through three segments: Agriculture (tractors, combine harvesters), Forestry (bulldozers) and a financing division (to support its dealers). We view Deere as an outstanding business with industry leading operating metrics. Deere holds a dominant 40% global market share, and more than 50% in its American home market. Indeed, two thirds of American farms own one or more Deere products. Its market share is around double the next largest competitor.

Deere's competitive moat is immense and stems from its well-known and respected brand name, high quality products and extensive distribution. The nature of agricultural machinery is that although it is only used once per year (and often only for a few weeks) it is mission critical to farmers that their equipment is dependable at harvest time. Farmers can also rely on Deere as it has the most extensive network of dealers, providing support and spare parts to farmers should a breakdown occur. On average, in the US, a farmer is within half an hour to a dealer whereas competitors' dealerships are three times further away on average.

Caterpillar, the dominant construction and mining equipment manufacturer, once tried entering the agricultural equipment market but found Deere too hard to compete with and gave up, selling the division. The premium nature of its products mean that Deere has decent pricing power compared to a typical equipment maker and typically raises prices by 3% per annum and adds new features such as precision ag capabilities (which can meaningfully increase the sale price at high margins).

The agricultural equipment industry should benefit from several strong, long-term secular industry tailwinds. Demographic changes are increasing the need for efficient farming. After working through supply chain issues, which impacted many manufacturers, Deere is well placed to accelerate its growth as demand remains strong. Much of the aging tractor and combine harvester fleet will require replacing in the coming years providing long-term replacement demand.

Technological advancements allow for more cost-efficient farming. In this respect, the growth of Deere's precision ag business has been supported by its significant investments in research and development. Interestingly, this change is reflected by Deere now employing more software engineers than mechanical engineers. An overlooked aspect of Deere's growing technology prowess is that it will serve to lock farmers into the Deere ecosystem. In the same manner as Apple with its web of interlocking products, Deere is locking in farmers to its system and making it more likely they will upgrade as the extra cost of precision ag equipment pays typically for itself in under 2 years. We expect margins to increase as Deere sells more software related products.

Our due diligence extended to local dealerships and highlighted how strong a business Deere has with a large backlog with most products sold out for the next year. Second hand prices remain very high, reflecting the level of demand for Deere's goods.

New Positions

Fairfax India

After following the company since its listing, we established a new position in **Fairfax India** for the first time, a closed end fund established by Prem Watsa, the founder and chairman of a Canadian insurer called Fairfax Financial. Prem Watsa's reputation for financial savvy has seen him dubbed the "Buffett of the North". Despite India being the fastest-growing economy over the past decade, India is a very difficult market for foreigners to invest into and as a result it is largely ignored by Western investors. This led Watsa to launch Fairfax India in 2015, raising US$1.5 billion to invest in public and private operating businesses in India, with an emphasis on high quality infrastructure and financial services. Fairfax India trades at around half of its net asset value (NAV), despite a history of strong growth and good governance.

Fairfax's crown jewel asset is its just under half-share of Bangalore International Airport ("BIAL") which amounts to half of its assets. BIAL is a highly profitable airport in Bangalore, India and is a sought-after asset. Large investors such as large pension funds covet such assets. This asset was recently restructured to accept a private investment to ready the asset for an IPO. This transaction valued BIAL at $2.6 billion. There are a few reasons why this is likely an understated valuation:

- Passenger levels have recovered to close to pre-Covid levels
- BIAL is the fastest growing large airport in the world
- The Indian economy is displaying significant strength as more companies move manufacturing from China with Bangalore, the technology centre best positioned to benefit
- The recent transaction equates to only 11x 2025 gross earnings, a low industry multiple
- There are meaningful opportunities for future retail and commercial expansion as BIAL owns over 460 acres of adjacent land
- Unlike many capacity constrained airports (like Sydney), there is a plan to greatly expand passenger capacity with $1.9 billion having been spent to accommodate 50 million (up from 20 million) by improving a terminal and building a second runway. The ultimate plan is to expand capacity to 70 million passengers by 2029.

Recent media speculation indicates that the IPO could be between US$2.9 billion and $3.7 billion. Whatever the final number is, we expect that this will bring attention to the valuation disparity between the share price and Fairfax India's net asset value. The balance of its assets are high quality companies with a history of strong financial performance, ranging from a stake in the Indian stock exchange to financial companies.

New Positions cont.

Longi Green Energy Technology is the world's largest solar module producer, generating twice as much revenue than its nearest competitors at the same time as having triple the operating margin. In what has historically been a very competitive industry, Longi has emerged as the dominant player. Longi achieved this by first dominating the monocrystalline silicon wafer market, where it has captured a 45% share, and then moving downstream into cells (cut wafers) and modules (assembled cells). As a result, Longi's module competitors rely on Longi for their key inputs - good luck when you have to purchase the key inputs you need from your competitor! This aspect naturally constrains competitors' growth and margins. This has been reflected in the past five years as Longi's business advantages - the highest returns on invested capital, higher gross margins and industry-leading operating costs - have lead to earnings growth of 40%+ per annum, leading to 55% per annum returns for shareholders.

Longi's advantages in vertical integration, scale, and technology translate into a significant advantage in financial performance over peers. Recent market conditions have allowed us to add to our holding in Longi at attractive prices.

The Fund established a position in **Volaris**, a well managed, fast growing and well financed airline. Volaris became Mexico's biggest airline in recent years by clever strategy and an 'ultra-low-cost carrier' business model that operates one of the world's youngest and most-efficient plane fleets. As a result, Volaris is Mexico's lowest-cost airline. Mexico is a country where people travel a lot and traditionally this occurred by long-haul bus. Volaris has had great success in transporting 10 million first-time flyers that switched from buses to air transportation. Converting more bus travelers to planes remains an opportunity as there are over 1 billion long-haul bus passengers per year. If 10% of these bus passengers move to airlines, the size of the aviation industry in Mexico would double once again. Since listing in 2013, Volaris has tripled the size of its business. The key strategic move was to take advantage of the once-in-a-life opportunity to cover the hole that was left by the other carriers as they struggled with the pandemic. As Aeromexico filed for bankruptcy, Interjet disappeared and U.S. market carriers were focused on survival, Volaris expanded its fleet and hovered up their market share. Today, Volaris is about twice the size of Aeromexico, the previous largest airline.

The business advantage of the ultra low cost airlines stems from the fact that "there is always demand for the cheapest seats", which enables them to consistently expand and push out higher-cost competitors. Volaris's unit cost is lower than before the pandemic despite recent inflationary pressures. Volaris's underlying cost advantage over its competitors will be underpinned by its continuing transition to the highly efficient a321neo aircraft. The a321neo effectively costs the same to run as the smaller a320 (via 15% less fuel burn) but carries an additional 59 passengers at no additional cost. Today, Volaris has the most cash on its balance sheet in its history. Despite a relatively high oil price, we see travel returning as the pandemic pressure lifts and people holiday and visit family. A recent sell-off saw the share price cut in half which returned the company to valuations approaching those reached in the COVID-19 sell-off in March 2020. At a current market cap of around $1 billion, the company has guided to free cash flow of $800m in two years.

New Positions cont.

Ferguson

The Fund also initiated a position in **Ferguson**, a leading specialised distributor of plumbing, heating and waterworks products across the US, Canada and Europe. Ferguson connects 34,000 suppliers and over a million customers. It is a diversified company and is the number one or two player in almost all of its market segments. Fears about slowing residential housing markets have caused the company to become cheap relative to its historical trading levels. After many years of divestitures, Ferguson transformed from a UK company to a US company and it now generates 95% of profits from the US with the balance from Canada. The final step of this transformation is its recently completed re-listing from the UK to US market with the possibility that it will be included in the S&P 500 Index this year (which should add incremental buying demand).

We are attracted by the fact that Ferguson's end markets, such as plumbing and HVAC, will likely look essentially the same in years to come as they do now with little risk from technological obsolescence. Ferguson's scale advantages protect both foreign and e-commerce competition. We view the business as a well-run, cash flow-generative distributor with a strong balance sheet and savvy operators. Ferguson currently trades at a 4.5% earnings yield and has a long runway to grow earnings via a combination of organic growth and bolt-on acquisitions in end markets that remain fragmented.

Existing Positions cont.

Core holdings						
Company	Ticker	Market cap	Current price[1]	Target price	Upside[2]	Summary
Deere & Co	DE	126B	409	600	47%	Deere & Co. engages in the manufacture and distribution of equipment used in agriculture, construction, forestry, and turf care. Dominant business expanding margins via technology.
Longi Green	601012	54B	43.42	100	130%	Leading solar technology business with a huge growth pipeline, selling as much as it can manufacture.
Fairfax India	FIH	1.8B	13.21	25	89%	Owner of various assets in India, including the best airport, trading at a half of its net assets.
Ferguson	FERG	29B	145	200	37%	Plumbing and heating products distributor in the US which recently relisted in the US from the UK.
Volaris	VLRS	1.3B	11.08	25	125%	Leading airline operating at some of the lowest costs in the world.
ACV Auctions Inc	ACVA	1.54B	$8.21	$24.00	192%	Online US wholesale dealer-to-dealer vehicle industry taking market share from physical auction incumbents.
RumbleOn Inc	RMBL	136M	$6.47	$70.00	1,082%	RumbleOn's industry-leading scale and technology should allow it to become the dominant market maker and online marketplace for new and used motorcycles.
Universal Music Group	UMG	€42.2B	$22.51	$30.00	33%	Universal Music Group is the world's leading music entertainment company best placed to capitalise on the continuing growth in streamed music.
Kaspi Bank	KSPI	13.93B	$71.50	$120.00	67%	A rare fast growing, highly profitable Super App serving: - Payments, Marketplace, and Banking.
Evolution AB	EVO	$19.5B	$1015	$1,800.00	77%	Evolution Gaming provides live casino games, dominating the European market with 70%+ market share.

[1] As at time of writing. Market capitalisation in USD unless otherwise stated. Current price in local currency in which the shares trade unless otherwise stated.
2 Upside to our target price from the share price as measured at 31.12.2022 or when acquired if those shares were acquired after year end.

Commentary cont.

As indicated by the table above, when we look at our portfolio today our expected returns have never been higher over the medium term in our view.

STRATEGIC GLOBAL FUND

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