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 2023

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

PERFORMANCE CHART

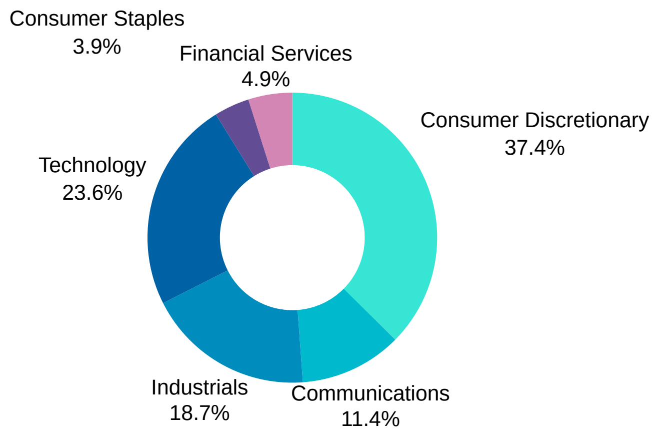
NET PERFORMANCE

1 Month	2.67%
3 Months	5.58%
6 Months	3.36%
1 Year	8.22%

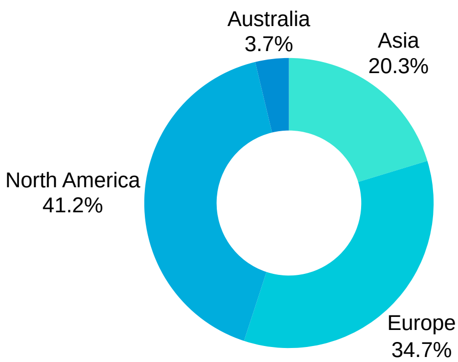
TOP TEN HOLDINGS

Company	Sector
Universal Music Group	Communication Services
ACV Auctions	Consumer Discretionary
Evolution Gaming	Consumer Discretionary
Hibbett	Consumer Discretionary
Richelieu Hardware	Consumer Discretionary
Almacenes Exito	Consumer Discretionary
Protector Forsikring	Financial Services
Carlisle Companies	Industrials
Kaspi Global	Technology
SeSa	Technology

INDUSTRY EXPOSURE



GEOGRAPHICAL EXPOSURE



Observations

Positive changes

We have implemented a number of positive changes in the past few months. We systematically examined possible improvements to our processes and areas where we wanted to expand our research abilities. To assist with this, we employed a very qualified senior funds management executive that has worked with some of the largest and most successful fund managers in the world (notably, UBS in Switzerland). This strategic review has led us to put in place some exciting additional resources which will let us take advantage of some important investment themes.

In particular:

1. Add new investment talent to better drive investment results, particularly to cover certain sectors where our strategic review concluded that we lacked depth - see discussion of **Artificial Intelligence/Re-electrification** and **Hammond Power** below for the first successful investment following this.

2. We have reviewed all holdings to ensure that capital is allocated where we believe that the capital could be best deployed. The quarter was confirmation that these strategy amendments are already bearing fruit.

We are particularly excited about our investments related to AI and the related supporting companies that will feed this growth - particularly the huge need for more computing power. We will report in the future with our increased exposure to this fast growing sector of the market. We also are excited about the prospects of the huge potential for companies feeding the re-electrification of the energy grid as our primary energy source becomes renewable.

Portfolio News

Existing positions

- Already we have closed certain investments (**Austal** on poor results from its US division), reduced others (**Kaspi** - after it recovered from lows of $30 to over $90 - finally, a profitable investment for the Fund and now better sized in the portfolio given the relative risk/reward inherent in its geographical location notwithstanding the high quality of the business).

- **Universal Music Group** has been one of our top holdings and has performed well since our last half yearly report, up over 26.7%. Universal is the world's leading music company with its massive recorded music catalogue and related merchandise and publishing business. The Company holds a leading 35% share of the global recorded music market compared to Sony with a 24% share and WMG with 21%.

- We continue to believe that music streaming has a huge runway of growth ahead of it. Universal's dominant position is reflected in the fact that half of the top 50 artists in 2023 were Universal artists including such big names as Taylor Swift, Drake, Ariana Grande, The Weeknd and Shakira. Given the depth of its offering, you cannot operate a proper streaming service without Universal providing it with significant bargaining power and the ability to continue to capture much of the upside from the continuing popularity of music streaming.

- In our last half yearly report, we discussed our position in **Carlisle Cos Inc** (**CSL**), a 100+ year old business in the process of simplifying its strategy and focussing on its most profitable operations. In 2016 CSL was returning less than 10% on invested capital with only 56% of revenue coming from the most profitable segment, building products. This year, 100% of revenue is expected to be derived from building products, leading to a forecast 25%+ return on invested capital. With future capital returns forecasted to well exceed the cost of capital, CSL should continue to perform well.

- Our original investment thesis noted two major tailwinds supporting CSL:

  - Replacement demand – Carlisle has a leading position in re-roofing and a significant proportion of commercial stock across the US is due to be upgraded in the coming years

  - Energy efficiency – demand for more energy efficient buildings continues to grow.

- Our base case is that both issues become increasingly salient so will continue to drive revenue and profitability in the long-term.

Portfolio News

Hibbett

We established our position in **Hibbett Inc**, a US based athletic fashion retailer with over 1,150 stores, because we viewed its position in the **Nike** ecosystem as secure despite investors fretting about Nike dropping distributors in favour of its direct-to-consumer strategy. We were impressed by the quality of the business and its management team and backed them to rebound after the share price had dropped 40% from its COVID highs. Nike makes up almost 70% of the sales for Hibbett, making it the key driver of long-term value. We noted previously that: "Nike needs Hibbett to reach otherwise hard to reach customers mitigating the risk that Nike will cease supplying it". Our groundwork confirmed that Hibbett was deeply involved in its urban communities and sold products in locations where online sales were largely non-existent due to theft risk. Since we started building our position, there have been several positive developments to confirm our view of the critical Nike relationship. On its quarterly conference call, Nike has taken to mentioning Hibbett by name as their "important American partner" alongside two much larger companies (**Dicks Sporting Goods** and **JD Sports**) while notably not providing such a friendly description of large competitor Foot Locker (which is clearly on the outer). Hibbett also launched the Nike Connected Partnership which connects Hibbett and Nike's loyalty programs.

We remain supportive of management's strategy and continue to be comforted by their disciplined financial approach. Hibbett trades at a discount relative to other shoe retailers as well as general sporting goods stores. Hibbett's customer loyalty and brand value, particularly within the urban communities, should continue to drive free cash flow generation even in a tough environment. Recent results have been solid and Hibbett raised earnings per share guidance for the full year to be between $8 and $8.30 up from the previous $7 to $7.75 range, putting the stock on a forward P/E of around 8x currently. At the end of the quarter, we were up around 30% since purchase.

Evolution AB

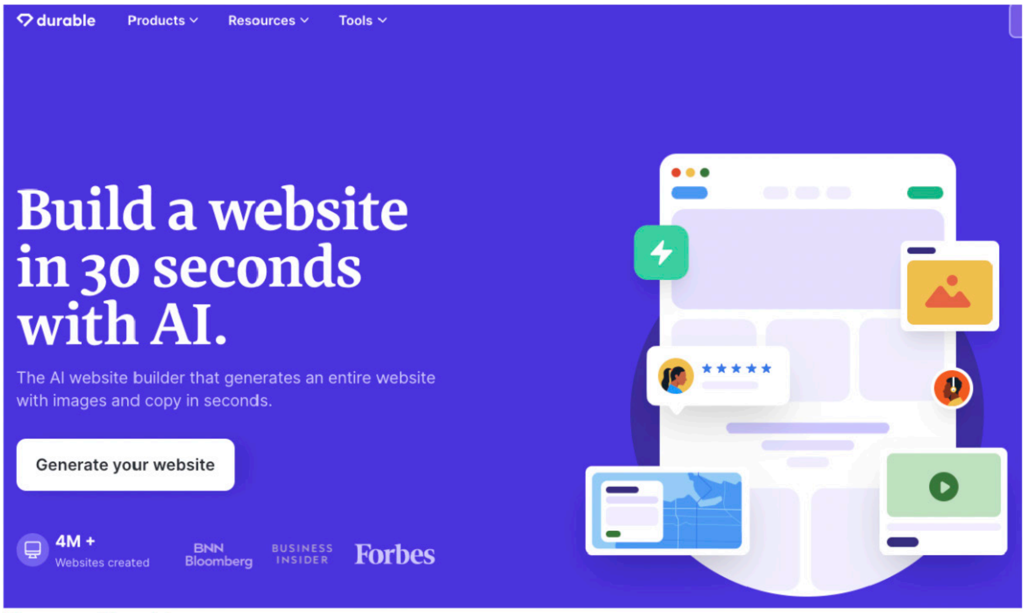
Portfolio holding **Evolution** remains the world's leading provider of fully integrated live and slot casino systems to licensed gaming operators. The way this works is that in a live online casino the dealer (an actual person) runs the game from a casino gaming table located in centralised studios. The player follows the game in real time via a video stream (like a Zoom call). The players make betting decisions on their devices (computers, smartphones etc.) and have access to a 24-hour offering. As a business-to-business supplier, Evolution provides its offerings to the gaming operators, who in turn own the relationships with the end users. Evolution takes a cut of the profits the operators make. They also charge an establishment fee of ~EUR50,000 to open custom tables for gaming operators, which provides a strong revenue stream and leads to a stickier client base.

Revenue growth slowed over the period, as capacity didn't adequately respond to demand in 2023. We expect capacity and therefore growth to improve in the medium-term as new capacity comes online in the form of studios across Europe, North America and Latin America. This will further improve the growth prospects as the year progresses. The business remains highly cash generative and that ensures adequate funding for both its organic growth and acquisitions of complementary businesses. As a result, we expect Evolution to take market-share and to increase the gap to its competitors.

Investment Theme
A.I.

Artificial Intelligence - a major step-change - has the future finally arrived?

One of the true technological innovations last year was the breakthrough in artificial intelligence (AI) which entered widespread use for the first time via ChatGPT. Via large language models like GPT-4 (which powers ChatGPT) it is possible to talk to computers and have them perform tasks that previously were considered the sole domain of humans - be it artwork, writing code or a novel. The rapid proliferation of this technology is evident in the increasing number of applications - for example, you can now build an entire website in 30 seconds, without any web design expertise to use, by answering a few simple questions:



Source: Durable.co

You now no longer need to be a computer programmer to do many tasks - even building complex apps. Computer programmers in turn are now far more efficient. And for businesses, there are numerous advantages to utilising AI regardless of the industry. For example, AI can also be used to develop new products and processes for manufacturers. In healthcare, AI can improve patient care by helping analyse medical images to better diagnose diseases and prepare treatment plans.

Investment Theme
A.I.

We make use of AI in our own research activities. However, often when we make a request for an answer from ChatGPT - e.g. asking for a search of a company filings database for the frequency of a particular phrase and summarising the results, ChatGPT can't perform the task. This is simply a function of the huge amount of computing power required by AI. Soon, you will be able to make an entire movie with text prompts - but, that will require an immense amount of computing power. Robots too will be able to perform far more advanced tasks now that computers can accurately interpret live video feeds.

The obvious implication from all of this is that there will be a massive increase in demand for computing power. Previous step-ups in demand for vastly more computing power - most recently, the rise of gaming and cryptocurrency mining - occurred at a time when there were a large number of competing companies. Many such companies went bust. It is a different landscape now. There are only a small number of companies that are left to benefit from this huge demand for computer chips.

We have established a position in **Nvidia**, which is the clear leader in the A.I. industry. Nvidia is the leading designer and manufacturer of Graphics Processing Units which were initially designed for video gaming and then cryptocurrency mining. It turns out that such chips were exactly what you need to train and develop large language models. We have already seen Meta, owner of Facebook, announce a purchase of many billions worth of A.I. chips.

We also have elected to establish a position in **Taiwan Semiconductor**, another clear leader in the industry. It is the world's leading chip foundry with around a 60% market share of the global semiconductor foundry segment. TSMC's customers, such as Apple, design chips and it builds them. TSMC has made possible the rise of the fabless semiconductor manufacturer, like Nvidia, which don't have their own chip foundries (which cost tens of billions of dollars).

Most importantly, Taiwan Semiconductor has a near-monopoly in the most advanced chip node sizes, with an incredible 90% market share. Taiwan Semiconductor is clearly undervalued on any valuation metric. This discount is largely due to China's threats about forcing Taiwan to become part of its territory by military means or otherwise. We have sized the position with this outlier risk in mind although we think this is not an inevitable outcome. As demand for the highest performing chips soars, many other chips are doing badly (consumer related demand is very low - as people have put off getting new phones). At some point, we expect that demand for computers and phones will return with the related need for lower end chips. [This article does a good job of documenting TSMC rise and importance: https://www.ft.com/content/05206915-fd73-4a3a-92a5-6760ce965bd9]

We are also exploring other companies in the semiconductor ecosystem to play this investment theme - including equipment makers and testing companies that should also benefit from this industry growth. Many of these companies enjoy privileged competitive positions with duopolies and monopolies that make the ultra-high tech components required to build advanced chips. We are working on adding new positions within this space to the Portfolio.

Investment Theme
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New Position: Mastercard

Mastercard Incorporated

Mastercard is the well known operator of the world's second-largest payment network which serves to facilitate payments in a seamless way across the globe. Operating in over 210 countries, the company connects consumers with their banks and merchants. Mastercard was previously owned by its member banks until it was converted into a for-profit company. Since listing, its results have been incredible with cash flow increasing by 33 fold.

When you pay for something in Australia, there is a decent chance you do it with your credit or debit card, smartphone, or even smartwatch. Over the past 20 years, in much of the Western world cash has gone from the primary form of payment to third place behind debit cards and credit cards with cash representing under 20 percent of transactions.

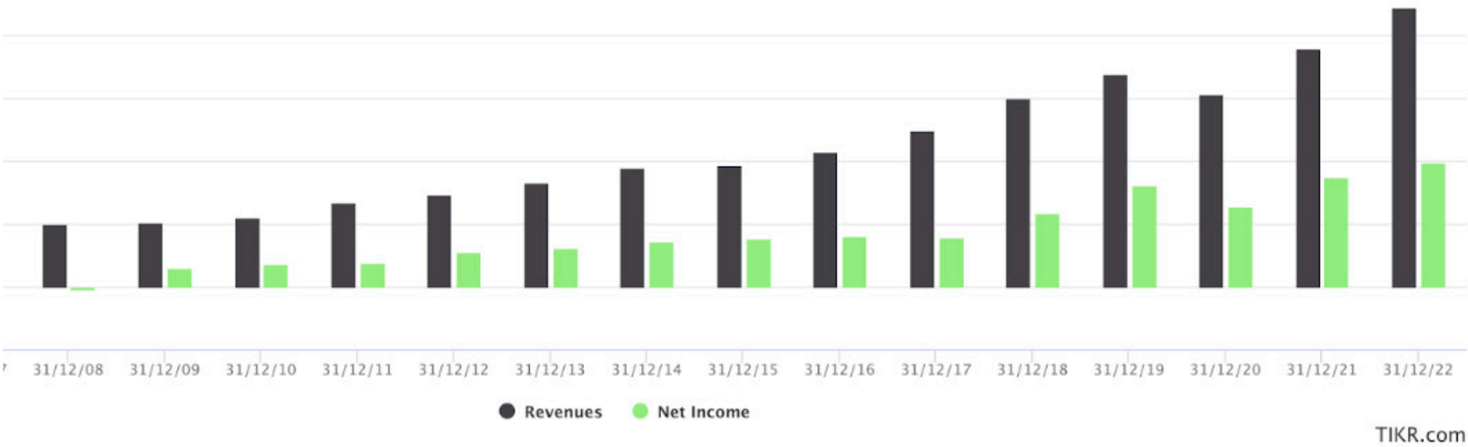
It is when one travels to Asia and elsewhere overseas that one realises how much cash is still the prevalent means of payment. We sometimes might not realise from our experience in Australia, with our constant paying via tapping, that the vast majority of transactions globally are done in cash, with some estimates as high as 85%.

The transition to a cashless society has been and will continue to be a massive driver of growth for companies that manage the digital money system, such as Mastercard. In owning Mastercard, we believe we own a very special business. Its business model is to charge a very small amount on the trillions of dollars transacted over its network.

There are many reasons to expect digital payments to grow helped by:

- Governments preferring more easily traceable (and taxable) payments
- E-commerce continuing to grow
- Unbanked consumers moving to payment cards (typically prepaid cards)

Mastercard has an immaculate balance sheet with no net debt. It generates a 48% free cash flow margin and will grow at the expense of cash. This is a formula for steady growth:



New Position: Moody's

Moody's Corporation

Moody's Corporation is one of the two global giants in the credit ratings business. Any company seeking to raise meaningful amounts of debt financing by issuing bonds will need to have their debt offering rated. If they don't, they limit the number of investors willing to accept their debt, which results in higher interest rates. There are only three companies to choose from that will rate your debt. Together with Standard & Poor's, Moody's has a market share of around 40% with the top three (Fitch is a smaller number three) holding 95% market share.

There is much to like about the credit rating business and Moody's.

Moody's is as close to an unregulated oligopoly that you can find. Regulations are a great help to its competitive position. To compete in the bond-rating industry you must first be designated a "*nationally recognized statistical rating organization*" (NRSRO) by the U.S. Securities and Exchange Commission (SEC). Without this designation, which would be onerous to achieve, you cannot compete. This is not easy as there are only 10 such approved rating agencies. This competitive advantage is before you get to the other things Moody's has going for it, such as:

- **Reputation** - Moody's 115 year old reputation provides an insurmountable barrier to competition. It would be almost impossible to replicate this from scratch. It is telling that despite the large margins that the business generates that there are only three companies in the space.
- **Big three** - Moody's is one of two dominant players in the rating agency industry. Moody's and S&P have roughly 40% market share each. Fitch trails with 16%. It is customary to have two ratings on debt issues, so more times than not, Moody's and S&P are the rating agencies of choice.
- **Friendly competitors** - Competition can be described as friendly. Many debt offerings are rated by both Moody's and S&P negating the need for either company to bother competing on price - they both know each other will get the job.
- **Strong co-owners** - The largest shareholder of Moody's is Warren Buffett (via Berkshire Hathaway).

The outcome of these competitive advantages is an amazing business. This is readily obvious from its financials.

Investment Thesis:

Moody's ratings business is exceptional, with proven pricing power, tremendous barriers to entry, high margins (operating margin averaged 54% from 2018 to 2023). Supplementing the ratings business is the Moody's Analytics division, which was set up in 2007 and provides economic research regarding risk, performance and financial modeling, as well as consulting, training and software services. This division boasts recurring high margin revenue (93% recurring) with steady growth since inception.

Investment Theme
Re-Electrification

Re-electrification: a promising hunting ground

Over the course of history, the main source of energy has changed various times - from burning wood, burning coal then burning fossil fuels. The shift towards renewable energy represents the next major change. As part of this transition, electrical grids need to be improved to make them more efficient, reliable, and resilient. This is critical because when more renewable energy sources are added to the grid, it struggles to deal with greater fluctuations in supply and demand.

After much work into the theme, we believe that the grid equipment industry will be a major beneficiary. A higher proportion of intermittent renewable generation and increased energy demand will require aging electricity grids worldwide to be upgraded and expanded. Many grid equipment suppliers appeared to be slow-growing, mature markets. Our view is that now they are perfectly positioned to ride the tailwinds of one of the most attractive growth themes over the next two decades.

One such company we have identified is **Hammond Power Solutions** is a family-run 100 year old Canadian manufacturer of dry transformers for industrial power applications. Hammond is the undisputed leader in dry-type transformers in the North American market. Transformers are required at energy generation and consumption points to alter voltage levels and enable efficient power transmission over long distances. Spanning 21 manufacturing locations and serving over 3,000 distributors, Hammond is the largest player in the North American transformer market by a huge amount, with 25% overall share. In dry-type transformers Hammond holds 70% market share, as a result of the Company's well known brand and service offering.

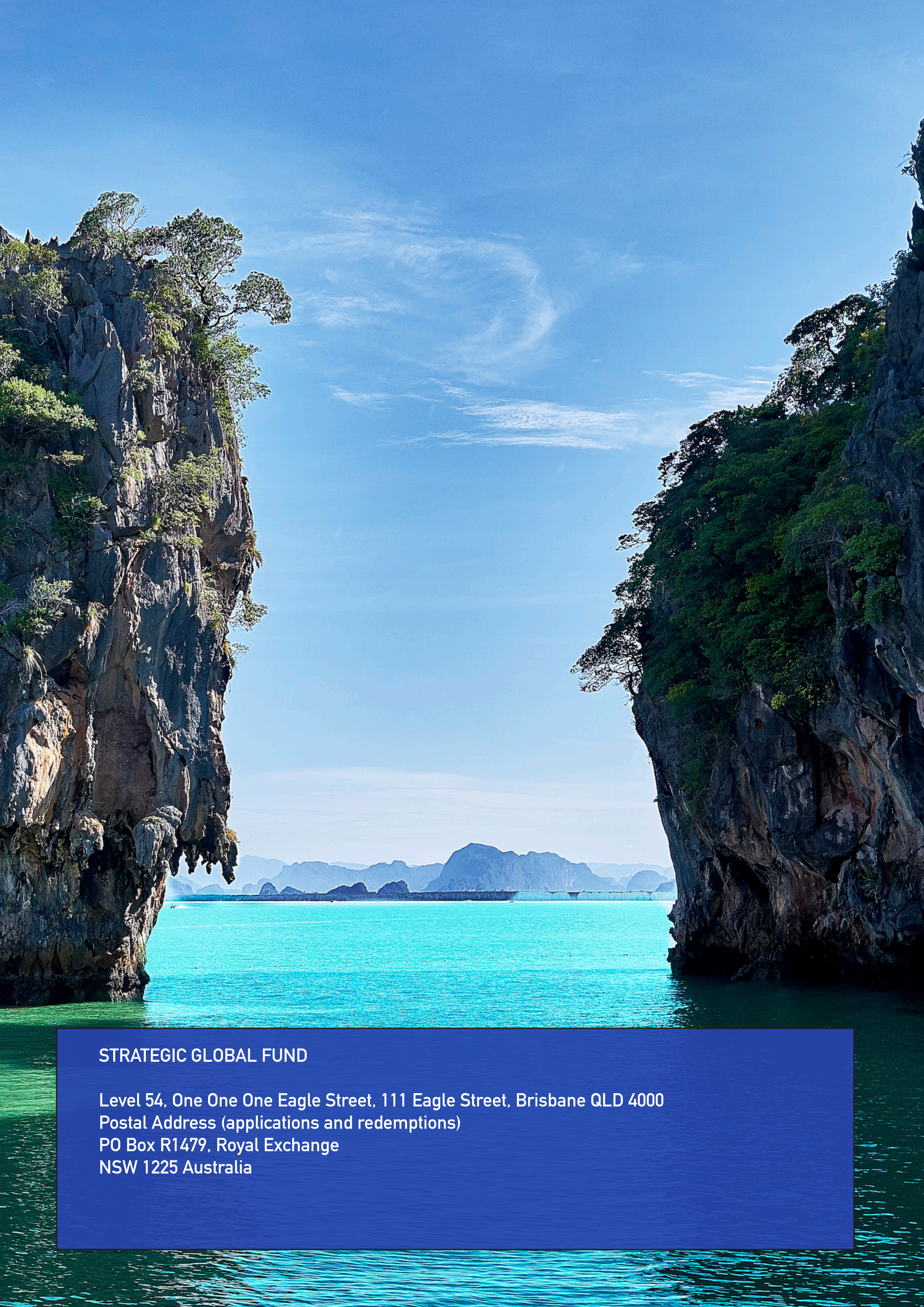
For the past few years Hammond has achieved 10% annual volume growth as it has expanded its distribution network. Additionally, Hammond has invested in expanding its production capacity. It has a strong record of growing profits but as the energy transition continues, the best may be yet to come for Hammond. This year we expect it to generate over $72m in earnings, and it trades for around 14x P/E. This represents a significant discount to its grid equipment peers, which trade closer to 20x P/E.

We see this theme as likely to generate more promising positions going forward.

Table of Core Positions

Core holdings					
Company	Ticker	Entry price	Current price[1]	Current P&L %	Summary
Universal Music Group	UMG	€23.01	€27.74	20.56%	Universal Music Group is the world's leading music entertainment company best placed to capitalise on the continuing growth in streamed music.
Evolution AB	EVO	1049 SEK	1220 SEK	16.34%	Evolution Gaming provides live casino games, dominating the European market with 70%+ market share.
Hibbett Inc	HIBB	$55.50	$66.99	20.70%	Retailer of athletic products, especially Nike products focused on regional towns which have less competition, low valuation.
Carlisle Companies Incorporated	CSL	$234.10	$310.21	32.51%	A conglomerate slimming down which will demonstrate the quality of its core roofing business which is the largest in the US and overlooked by investors.
Richelieu Hardware	RCL	$42.73	$43.96	2.88%	Canadian hardware retailer expanding with success into the US market via organic growth and M&A with a long runway of growth ahead.
Hammond Power Solutions	HPS.A	$62.39	$92.91	48.92%	Largest maker of dry type transformers, benefitting from the global need to upgrade electrical grids.
Kaspi Bank	KSPI	$86.00	$91.00	5.81%	A rare fast growing, highly profitable Super App serving: Payments, Marketplace, and Banking.
ACV Auctions Inc	ACVA	$7.99	$13.47	68.59%	Online US wholesale dealer-to-dealer vehicle industry taking market share from physical auction incumbents.

[1] As at time of writing. Market capitalisation and share prices in USD unless otherwise stated. Current price in local currency in which the shares trade unless otherwise stated. Dividends not included.



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