Half Year Investor Report

30 June 2020

STRATEGIC GLOBAL FUND
ARSN 613 886 392   APIR OMF0027AU

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MONTHLY UPDATE — June 2020

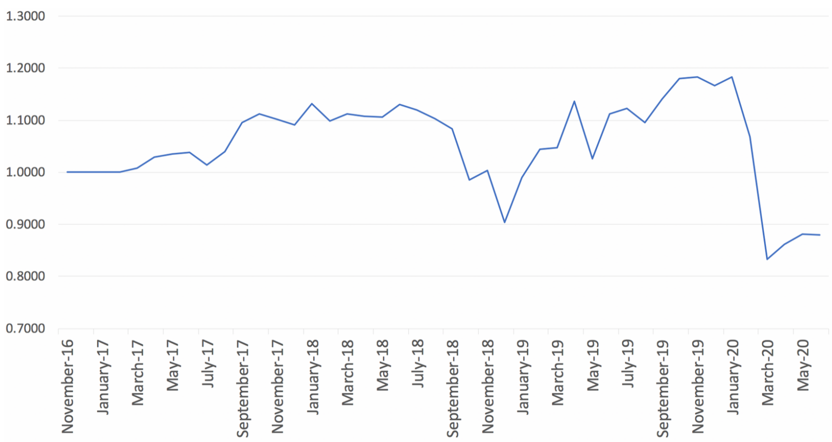
FUND FACTS

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



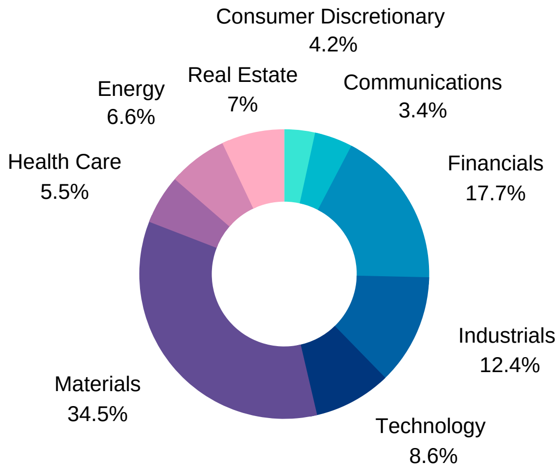
NET PERFORMANCE

1 Month	-0.07%
3 Months	5.62%
6 Months	-24.54%
1 year	-20.89%
2019 Return	29.20%

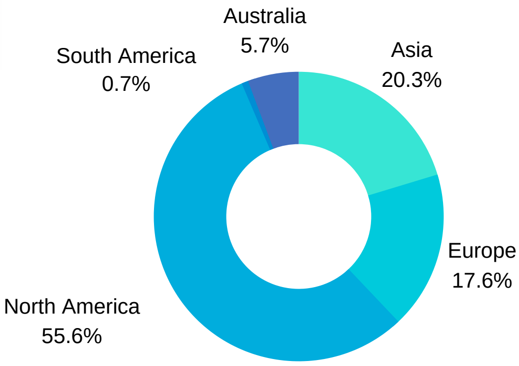
TOP TEN HOLDINGS

Company	Sector
Genesis Energy	Energy
INTL FCStone	Financials
Sberbank of Russia	Financials
Change Healthcare	Health Care
API Group	Industrials
Sandstorm Gold	Materials
Iluka Resources	Materials
Crown Holdings	Materials
Shinoken Group	Real Estate
Endor	Information Technology

INDUSTRY EXPOSURE



GEOGRAPHICAL EXPOSURE



To Our Unitholders

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

We look at the economy through the eyes of the underlying companies in which we invest. Our on-the-ground research indicates that a recession is unlikely to be imminent. Although companies in certain sectors are saying that business is slowing, as we survey our holdings we see strong growth or attractive valuations. We believe that we are in the middle of a slow-growth economy. In such an environment we expect that interest rates will remain relatively low and that inflation won't be a major concern in the near term.

Although much of the financial press is taken up with speculating on wider economic circumstances, our focus is on companies and industries whose financial results and returns will ultimately be specific to their own circumstances rather than tied to general economic factors.

Market Observations

We certainly are living in interesting times as far as the financial markets are concerned. The pandemic has brought with it the largest economic shock since the Second World War. You would not necessarily know this from the rally in some shares over the quarter. It wasn't the economic performance of such stocks that drove this rally but rather the extraordinary intervention led by Governments around the World to put a floor under the sudden collapse in economic activity.

As we survey the overall market it is evident that there is an extreme divergence between companies classified as growth stocks versus value stocks and how these respective groups have performed recently. For the most part, it is the most expensive shares that have continued to accelerate whilst the cheapest have gotten cheaper. Although this has not been particularly helpful for our portfolio positioning this will turn at some point. Our focus is always at the individual company level and we have focussed on companies that are growing earnings despite the likely economic headwinds. For stock by stock investors such as ourselves this is an exciting time, with attractively low valuations being on offer broadly for the first time in a long time. Keep in mind that, ultimately, starting valuations are what determine the long term performance of an investment.

During the last quarter our holdings on balance enjoyed a strong bounce but the impact was muted by the strongly rising Australian dollar. Our underlying stocks' returns were far higher than the unit price suggests as returns were much higher and the translation into AUD was a major headwind. The huge movement in the AUD compared with its recent historical norms depressed returns by a meaningful amount. This is a function of the fact that the bulk of our assets are priced in USD and the fact that we do not hedge currency. Indeed, had our Fund been priced in USD, the quarter would have resulted in a gain of 16%.

In our opinion, we can't think of the last time when the portfolio held more promise. For the first time in a long time, the stock market is very much a market of stocks where there is a broad spread of prices across very similar industries and companies.

The Advantage of a Long Term View

Portfolio Changes

During the onset of the pandemic we moved a lot of the portfolio around. We wanted to ensure that the portfolio was as well positioned for a Covid world as we could. This involved selling businesses that had higher debt levels which would limit their flexibility in a potentially severe economic downturn in favour of businesses with Fort Knox type balance sheets. We also sought to free up capital for opportunities with larger long term returns or higher quality businesses when on sale. This involved closing businesses we otherwise admired: Vistra, Sea Limited, GPK and Nexstar. In the case of some of these exits, the price rose subsequently to our exit. In the case of Sea Limited, we closed the position at a healthy profit on concerns that the company required continuing access to the corporate debt and equity markets to raise at least one to two billion dollars per year. As it stands, this fear has been misplaced as the markets are well and truly open to such companies to raise as much as they want whenever they want. We continue to carefully monitor Sea's progress and would look to revisit the company on a pull back in price.

Since the onset of the Covid crisis we have sought to provide more detailed updates in our monthly communications on the website. This includes detailed information into our current holdings and underlying investment theses.

Key Points

“Mortal danger is an effective antidote for fixed ideas.”

E. Rommel

Notable from the half-year

- The Fund fell in the pandemic related sell-off
- Rise of the Australia dollar was a major headwind during the quarter (depressed returns by 11%)
- Actively repositioned the portfolio to account for altered economic conditions
- We consider that the current holdings are well positioned for the year ahead
- We believe that the Portfolio contains the best value in both an absolute and relative sense in the history of the Fund

Portfolio Summary

The table below sets out the top ten holdings of SGF in no particular order:

Company	Ticker	Observations
Crown Holdings Inc	CCK	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 as it benefits from growth in the can industry. Being one of three dominant players drives strong financial returns. See detailed summary below.
Genesis Energy LP	GEL	Owns irreplaceable pipelines in the Gulf of Mexico that are not directly exposed to the oil price and the World's lowest cost soda ash business. See detailed summary below.
StoneX	SNEX	An independent financial services company that connects over 30,000 clients and over 125,000 retail clients with over 40 public exchanges. See detailed summary below.
Change Healthcare	CHNG	Technology company that owns the largest medical claims clearinghouse network and several leading software platforms. Change Healthcare provides the software that forms the backbone of the US medical system. See detailed summary below.
API Group	APG	API is a collection of businesses with its largest division being focused on fire safety systems. These businesses are heavy in recurring services. These businesses have historically grown double digits organically. See detailed summary below.
Sandstorm Gold	SAND	Sandstorm Gold is a gold royalty company held by the Fund and is the largest position. See detailed summary below.
Sberbank	SBER	Sberbank is the largest bank in Russia and a leading international financial institution. Although the next 12 months may be challenging, Sberbank has been around since 1840 and has weathered many difficult periods before.
Illuka Re-sources	ILU	Buried within ASX-listed Iluka is a valuable royalty asset whereby BHP sends Iluka a cheque each quarter in relation to iron ore produced in a certain area called "Mining Area C" (known as MAC. See detailed summary below.
Shinoken	8909	Shinoken is a Tokyo-based real estate developer. They focus on apartments which in Japan means low-rise buildings of 2-3 floors. By contrast to a typical property developer, Shinoken operates an attractive niche in that it targets only very specific sites for development which are less than 10 mins walk to the nearest train station in large cities in Japan. Very cheaply priced, we see 3x upside over time.
Endor	E2N	Fast growing German maker of video game accessories that has been a major lock-down beneficiary with sales hitting record levels and the company has been under pressure to keep up with demand - an unusual but good problem to have in the current environment!

Portfolio Highlights

SGF's portfolio contains a mix of businesses which serve a broader range of customer bases across a range of different geographies.

Genesis Energy

We established a new position in Genesis Energy LP, which owns irreplaceable pipelines in the Gulf of Mexico that are not directly exposed to the oil price and the World's lowest cost soda ash business.

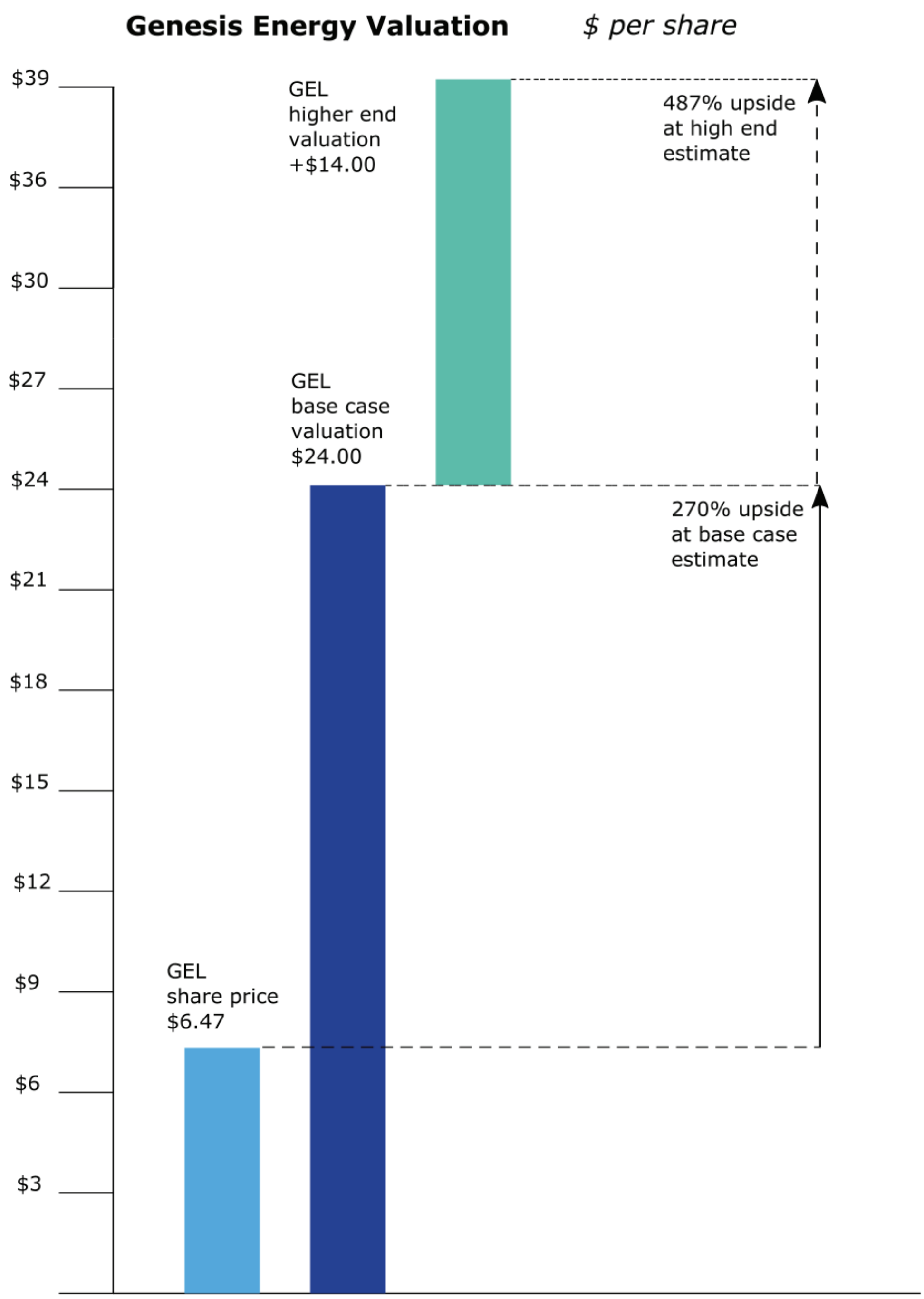
We purchased shares after the company announced a cut to their dividend payout which shook out some dividend chasing shareholders. As cash flow should not decline more than 10% from 2019 levels due to the contractual and mission critical nature of Genesis Energy's services with investment grade counter parties, we view Genesis as a true 'baby thrown out with the bathwater'. The Company currently trades at a projected 25% FCF yield to equity (including dividend or 2x our 2023 cash flow projection) in two years' time as new projects come online which will greatly increase the amounts flowing through Genesis Energy's pipelines.

Free cash flow is a more applicable valuation metric due to the favorable capex profile of the Company. This multiple implies the company is distressed and does not reflect the balance sheet strength of Genesis to ride out the current storm. 8x multiple on 2023 EBITDA, gives us a $24 per share stock price. A 10x multiple, lower than its historical multiple, (10% FCF to equity yield), gives us a $38 per share stock price target. Genesis traded up to $11 during the quarter and then retreated to $6.47.

Portfolio Highlights cont.

Genesis Energy cont.

The following table sets out our price targets:



Portfolio Highlights cont.

Sandstorm Gold

Sandstorm Gold is a gold royalty company held by the Fund and is the largest position. We are currently up about 63% on our Sandstorm holding.

We have written in our monthly updates about the benefits of the mining royalty business versus a traditional mining business. The following table compares the differences between the two business models:

Traditional mining business versus royalty business

Attribute	Traditional mining business	Royalty business
Summary of business model	Explores and mines for gold.	Makes an upfront investment in a third party owned mine in order to receive a profit stream royalty in the form of a percentage of revenue or production
Capital required to grow earnings	Significant capital required which must be continually invested. Must hire new staff, pay to explore new territory, pay for new mining equipment and new mines.	No extra capital required as earnings flow from existing royalty arrangements
Typical staff numbers	Up to 10,000	Up to 200
Revenue per employee	Up to $500k per employee	Up to $18m per employee
Typical return on equity	5% - 9% on average	20%+
How does it benefit from an increase in the price of gold	Initial benefit as higher sales prices from gold that has been produced. Benefit fades subsequently as additional investment is then required to expand production - more staff, more permits etc. The increase in price tends to encourage other mining companies to expand production too, which creates competition for workers, permits and pushes up costs.	As formerly dormant assets previously funded by the royalty company enter production, additional profits flow to the royalty company without additional capital being required.
Typical debt level	Often carries significant debt.	Typically debt free or modest debt levels.
Risk of bankruptcy	As sellers of commodities that can fluctuate greatly across the cycle the risk of bankruptcy is much higher than most industries.	Largely unheard of given that royalty businesses typically are debt free and have minimal operating costs other than a head office staff.

Portfolio Highlights cont.

Sandstorm Gold

Sandstorm Gold is based in Vancouver, Canada and specialises in acquiring royalties from mining companies that have advanced stage projects or operating mines. Sandstorm receives a royalty to purchase a fixed amount of the mine's production for the life of the mine in return for an upfront investment.

The company is very profitable. On revenues of $89m, Sandstorm generated free cash flow of $60m. Of its 191 royalties only 23 relate to currently producing gold mines. Key to our investment thesis is the fact that as additional mines come online in the near future, free cash flow will increase substantially and drive the share price higher. Adding to our excitement, Sandstorm has a substantial amount of money available to it (around $450m) to make new acquisitions in a market that promises abundant opportunities. As capital markets have tightened in the current environment, Sandstorm should be able to complete attractive deals. As such deals are announced, we expect the market to rerate the company's shares higher.

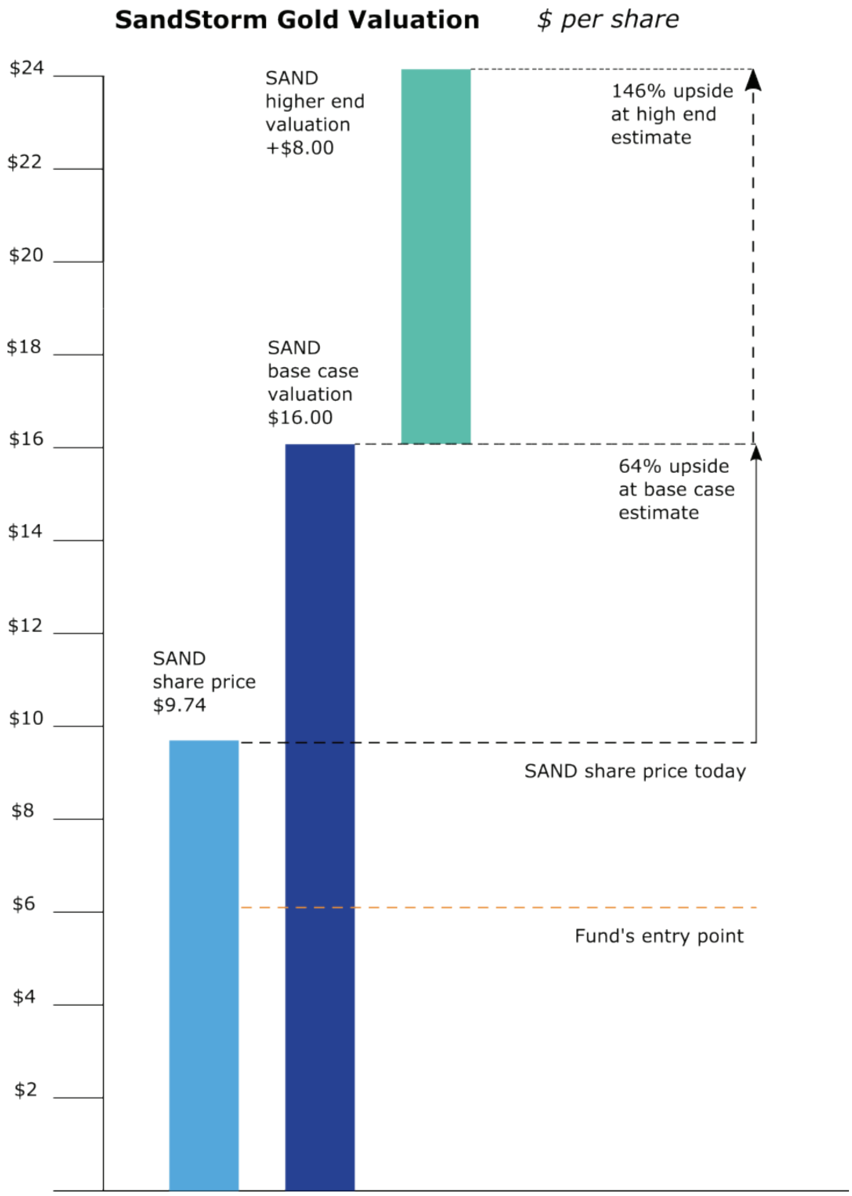
Given the unprecedented fiscal stimulus that governments all around the world are unleashing, it is our belief that it is far more likely that the gold price will be higher in a few years than lower. There are reports that such has been recent demand for physical gold and dealers are reporting difficulties securing gold. Our estimate is that an increase of 24% in the price of gold would cause a 33% increase in Sandstorm's earnings. Our earnings forecasts for the company indicate a likely increase in free cash flow from $65m to around $170m. Importantly, this increase should not require a meaningful amount of capital expenditure. We doubt many businesses in the current environment will be posting meaningful increases in earnings over the next two years in all likelihood. Investors are likely to reward such companies substantially.

Recently reported results demonstrate that our investment thesis for Sandstorm is on track. We forecast that once Sandstorm's largest underlying mine ramps up production, Sandstorm's free cash flow will increase to $200m from around $70m this year. In addition, as we look ahead, further upside can come from future gold price increases. Our price target is between $16 to $20 over the next two years in contrast to the Fund's entry price of $5.93 and the current traded price of $9.73, representing an increase of between 170% and 237% from our entry price. We believe there is still a lot of upside from the current price despite the increase to date. Our price target is based on a mid-range market multiple of our cash flow estimate as based on comparable publicly traded royalty companies.

Portfolio Highlights cont.

Sandstorm Gold

Further upside may come from Sandstorm's current deal pipeline. The Company is in a position to pursue a large and meaningful transaction which could add significant upside to our target price. We estimate that Sandstorm's debt free balance sheet and available credit lines would allow Sandstorm to complete a deal of around half a billion dollars. Given the current climate, any such deal could be on very accretive terms for Sandstorm.



Portfolio Highlights cont.

Iluka Resources

Following the knowledge base we have developed in relation to the strong attributes of the royalty business model we established a position in Iluka Resources which is listed on the ASX. Buried within Iluka is a valuable royalty asset whereby BHP sends Iluka a cheque each quarter in relation to iron ore produced in a certain area called "Mining Area C" (known as MAC). MAC is one of the best iron ore assets in the World. Following many years of shareholder pressure, Iluka announced an intention to demerge the royalty via the creation of a new ASX listed company that will be distributed to existing shareholders. The exact date of the spin off has not been confirmed but we expect it to be this year.

Iluka is valued as a mining company with investors placing little emphasis on the MAC royalty as it only makes up a small portion of the Company's overall valuation. We expect that once the market becomes familiar with the nature of the royalty that it will be significantly re-rated by the market. We also expect that the earnings from the royalty will increase by a large amount as BHP increases the amount it mines from the area. MAC is one of the lowest cost iron ore mines globally. The royalty provides direct exposure to the iron ore revenues produced from MAC without any of the typical hassles we associate with the mining industry such as obtaining permits, paying for exploration, mining operations and rehabilitation following completion of the mining (as our table about royalty companies above shows). In contrast, Iluka's asset involves all the difficulty of collecting and cashing a large cheque each quarter. We expect that the market will rerate the shares once spin off occurs to trade on the basis of the underlying yield, which implies substantial upside. The table below shows the revenue possibilities depending on FX and iron ore price assumptions:

MAC Royalty Annual Revenue Sensitivity ($ million)[2]

		Iron Ore Fines: US$/DMT, 62% Fe (CFR)			
		55	65	75	Spot (86)
AUD:USD	0.75	$116m	$140m	$163m	$189m
	0.70	$124m	$150m	$175m	$202m
	0.65	$134m	$161m	$188m	$218m
	Spot (0.65)	$133m	$160m	$187m	$217m

Portfolio Highlights cont.

Crown Holdings

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 $66 (and the Fund's entry price of $62).

Portfolio Highlights cont.

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. We consider the business to be of 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. Currently, elective surgery volumes are depressed as medical facilities prioritize COVID treatment.

Portfolio Highlights cont.

StoneX

The Fund purchased shares in StoneX, an independent financial services company that connects over 30,000 clients and over 125,000 retail clients with over 40 public exchanges. The driver for this investment is Stonex's purchase of Gain Capital, another broker focussed on the retail forex-focused retail CFD platform. We believe that this transformative acquisition is an absolute steal for StoneX. The reason is that after Gain Capital and Stonex agreed the deal, the world changed. The COVID-19 pandemic brought with it a substantial bout of market volatility that created a huge amount of excess value in just a couple of months as Gain Capital's earned over $133m in just the first 4 months of 2020 versus $19m for the entire preceding year. The story gets even better as following Gain Capital's recent strong financial performance, StoneX will be acquiring GAIN for less than the value of its cash, prior to any merger synergies. In effect, StoneX is being paid to take the business.

Putting all the numbers together, the purchase of Gain Capital will increase StoneX's free cash flow by over 100%. And this has come at a net cost of nothing to StoneX! There are also fantastic long term benefits such as the broadening of the product offering for both sets of customers and the addition of an important new distribution channel for StoneX's products. StoneX's management have indicated that a lot of capital each business currently sets aside to satisfy regulatory requirements will be excess to requirements amounting to around $100m. A relevant number for an acquisition priced at $238m!

We are currently up 32% on the investment, with our target price being around $70 for further upside of another 24%. Our expectation is that the market will recognise the great deal StoneX made in the coming quarters. We believe that management had been reluctant to advertise this prior to the deal being finalised and now that it has been that analysts will begin to update their earnings expectations accordingly.

Portfolio Highlights cont.

API Group

SGF has a position in API Group, which is best understood in the context of some history of its founding shareholder, Sir Martin Franklin. Sir Martin was the driving force behind Jarden Corporation, which was one of the best-performing stocks of the past 20 years, delivering a 5,000% total return to investors (around 30% per annum). API Group was a family owned industrial services conglomerate built generating over $400m of EBITDA across its three divisions. Although well-run and organically growing, we are excited by the prospect of a proven capital allocator growing this business going forward.

API Group's largest division is Safety Solutions which is focused on fire safety systems. These businesses are heavy in recurring services. These businesses have historically grown double digits organically. Its second-largest business called Specialty Services provides infrastructure services such as building fiber-optic lines and wastewater work. The third business conducts service work for utilities and energy companies.

When we invested in API Group, it was listed on the Over The Counter (OTC) stock exchange in the US. This form of listing made the company ineligible for inclusion in the U.S indices or mutual fund ownership with limited analyst coverage despite the meaningful size of the business ($400m in EBITDA). As a result, we believed that we purchased the business at a meaningful discount to its closest peers. At the time of purchase, we anticipated that the company would "uplist" to a larger exchange. It has now changed its listing to the New York Stock Exchange which should bring with it a larger potential investor base for its shares. We think that the company is also likely to be a beneficiary of large scale infrastructure spending in the US which recent news suggests President Trump is proposing to fund.

At the peer group average of 18x P/E, shares in API would be worth $22.50. It currently trades for $13.61, up 47% from the Fund's entry point.

Conclusion

We thank you, our unitholders, for your support and trust. As we look toward the future, we affirm our commitment to staying focused on long-term value creation to repay your trust.

Further Updates

We will write to you following the end of the next month and in more depth following the end of the September quarter.

We leave you with the following quote:

"There are decades where nothing happens; and there are weeks where decades happen."

Lenin

STRATEGIC GLOBAL FUND

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