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.

We don't often comment on overall market conditions to our trusted clients except when things are at extremes - such as what we have seen over the past few months. Significant drawdowns like this never feel comfortable but have historically provided some very good opportunities for strong returns over the medium term.

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HALF YEAR REPORT June 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

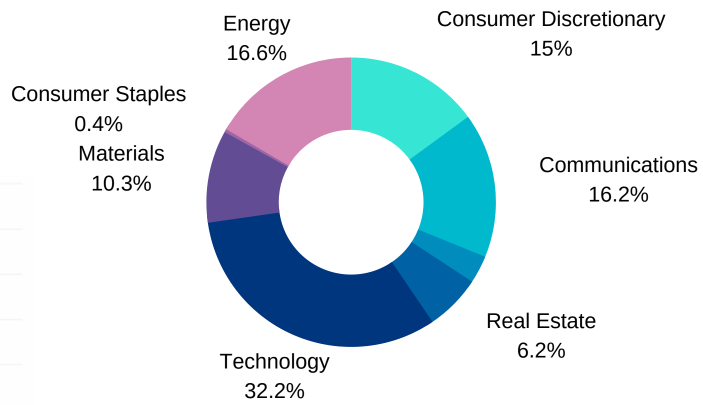
TOP TEN HOLDINGS

Company	Sector
Alphabet Inc.	Communication Services
Universal Music Group	Communication Services
Evolution Gaming	Consumer Discretionary
Rumbleon	Consumer Discretionary
Capricorn Energy	Energy
Peabody Energy	Energy
Turquoise Hill Resources	Materials
Digital Turbine	Technology
Kaspi Global	Technology
Vizio	Technology

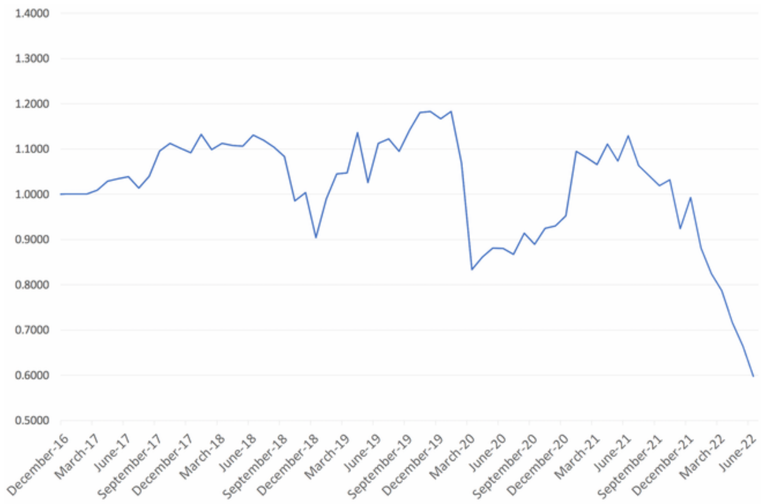
FUND FEATURES

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

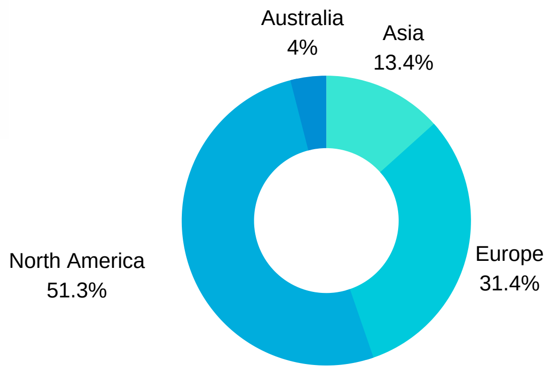
INDUSTRY EXPOSURE



PERFORMANCE CHART



GEOGRAPHICAL EXPOSURE



NET PERFORMANCE

1 Month	-10.06%
3 Months	-24.06%
6 Months	-39.85%
Calendar Year to Date	-32.23%

Observations

“Never waste a crisis”

2022 has been a rough ride for our investors so far. We fully acknowledge that the preceding period was a rollercoaster as well and, with the benefit of hindsight, we failed to benefit from the market opportunities available during the covid period. The purpose of this note is to set out our strategy for navigating and making the most of the current turbulent period. It is said that you should never waste a crisis and we are determined to do so in the current period. Our best ever investing outcomes over the past 14 years were recorded during periods of transition and market panic. This is an area where our experience should serve us well. Our view is that the extreme weakness in shares this year presents an attractive entry point for long-term investors.

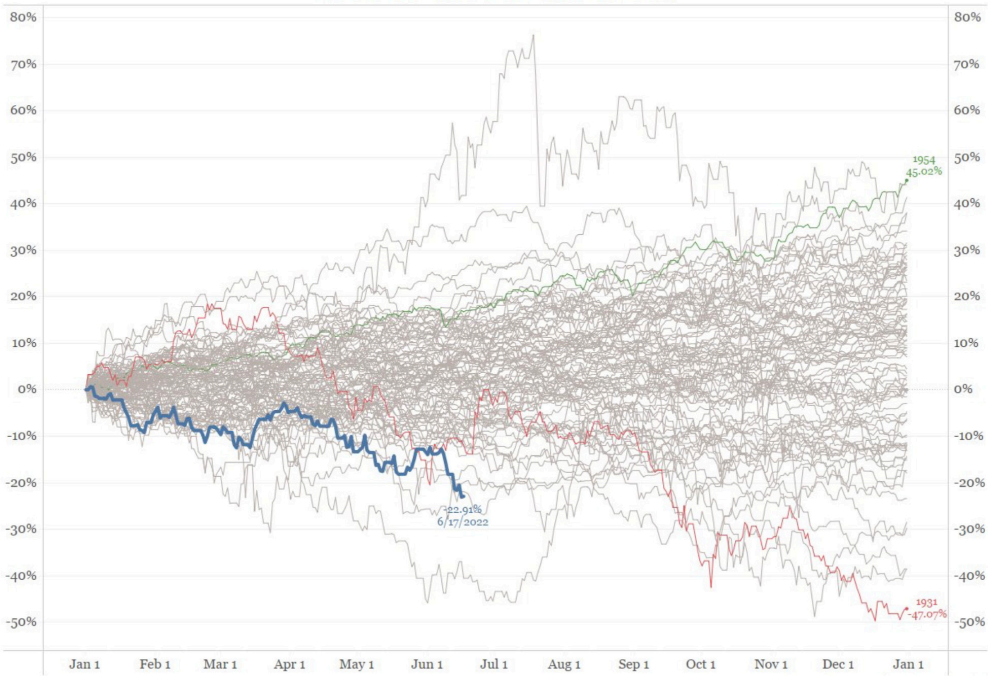
The Fund has a lot of competitive advantages that should help it in the current period:

- It does not employ leverage so that it will never be a forced seller and can take advantage of forced sellers
- It holds a meaningful amount of cash to deploy
- It employs deep research and a valuation based approach to find bargains
- We have extensive experience investing during extreme market conditions (for example, GFC, Eurozone crisis, Gulf of Mexico oil spill) - we are used to digging for bargains when there is proverbial blood in the streets

Recent market conditions

First, let us cover just how large and unprecedented the current sell-off has been. The year to date has been the market's worst start ever with the sole exception of the Great Depression. No one has seen anything like this year. See the chart below:

S&P 500 Index Price return for every year back to 1926

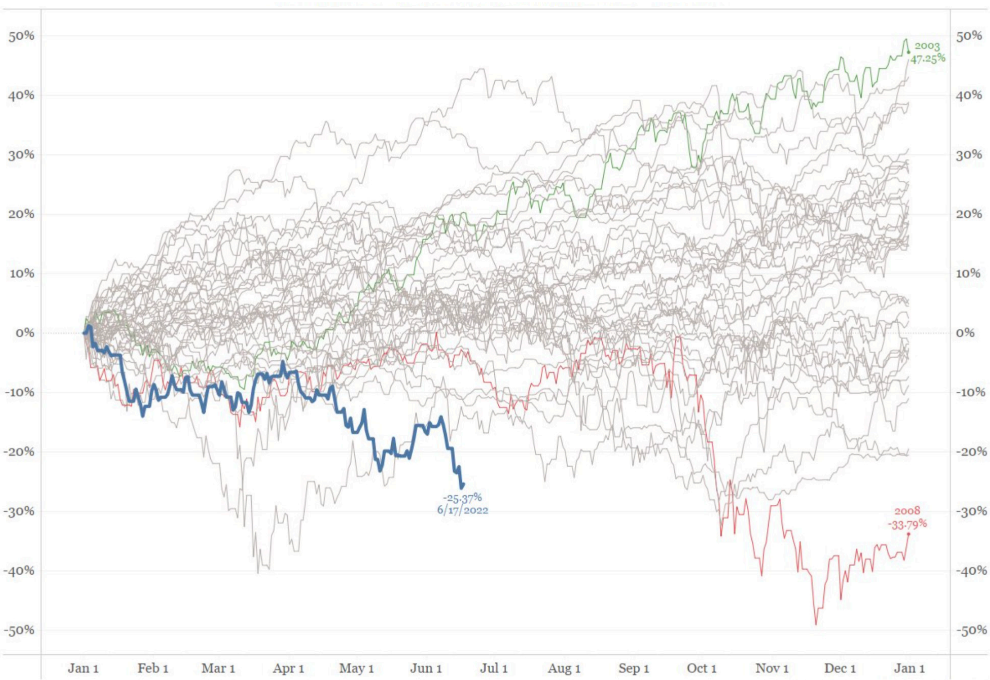


KEY

Blue line =2022
Green line = best return
Red line = worst return

Reference: KEDM, Bianco Research LLC, Bloomberg LP

The Russell 2000 (smaller company index) is having its worst-ever start to the year. The sell-off is approaching 2008 levels of market pain.



KEY

Blue line =2022
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Reference: KEDM, Bianco Research LLC, Bloomberg LP

Commentary cont.

The index numbers understate just how much individual companies are down. To demonstrate the real pain in the listed technology world, we turn to the BVP Index, which is a broad representation of high growth software and technology businesses. This index is down by 48% over the past year. Many of the names in it are down even further with some former market darlings down by more than 70% - 80% in many cases.

To put this in perspective, the following tables set out all bear markets since 1927:

S&P 500 Bear Markets since 1928		
Dates from Peak to Trough	Decline Percentage	Length in Days
7-Sep-1929 to 13-Nov-1929	-44.67%	67
10-Apr-1930 to 16-Dec-1930	-44.29%	250
24-Feb-1931 to 2-Jun-1931	-32.86%	98
27-Jun-1931 to 5-Oct-1931	-43.10%	100
9-Nov-1931 to 1-Jun-1932	-61.81%	205
7-Sep-1932 to 27-Feb-1933	-40.60%	173
18-Jul-1933 to 21-Oct-1933	-29.75%	95
6-Feb-1934 to 14-Mar-1935	-31.81%	401
6-Mar-1937 to 31-Mar-1938	-54.50%	390
9-Nov-1938 to 8-Apr-1939	-26.18%	150
25-Oct-1939 to 10-Jun-1940	-31.95%	229
9-Nov-1940 to 28-Apr-1942	-34.47%	535
29-May-1946 to 17-May-1947	-28.78%	353
15-Jun-1948 to 13-Jun-1949	-20.57%	363
2-Aug-1956 to 22-Oct-1957	-21.63%	446
12-Dec-1961 to 26-Jun-1962	-27.97%	196
9-Feb-1966 to 7-Oct-1966	-22.18%	240
29-Nov-1968 to 26-May-1970	-36.06%	543
11-Jan-1973 to 3-Oct-1974	-48.20%	630
28-Nov-1980 to 12-Aug-1982	-27.11%	622
25-Aug-1987 to 4-Dec-1987	-33.51%	101
24-Mar-2000 to 21-Sep-2001	-36.77%	546
4-Jan-2002 to 9-Oct-2002	-33.75%	278
9-Oct-2007 to 20-Nov-2008	-51.93%	408
6-Jan-2009 to 9-Mar-2009	-27.62%	62
19-Feb-2020 to 23-Mar-2020	-33.92%	33
1-Jan-2022 to current	-24%	180

Commentary cont.

The silver lining to bear markets is, of course, the bull markets that follow - as set out in the following table:

S&P 500 Bull Markets since 1928		
Dates from Trought to Peak	Percentage Gain	Length in Days
12-Jun-1928 to 7-Sep-1929	74%	452
13-Nov-1929 to 10-Apr-1930	46.80%	148
1-Jun-1932 to 7-Sep-1932	111.60%	98
27-Feb-1933 to 18-Jul-1933	120.60%	141
21-Oct-1933 to 6-Feb-1934	37.90%	108
14-Mar-1935 to 6-Apr-1936	92.40%	389
29-Apr-1936 to 6-Mar-1937	38.10%	311
31-Mar-1938 to 9-Nov-1938	62.20%	223
8-Apr-1939 to 25-Oct-1939	29.80%	200
10-Jun-1940 to 9-Nov-1940	26.80%	152
28-Apr-1942 to 14-Jul-1943	69.20%	442
29-Nov-1943 to 29-May-1946	75.20%	912
9-Oct-1946 to 15-Jun-1948	20.80%	615
13-Jun-1949 to 2-Aug-1956	267.10%	2607
22-Oct-1957 to 12-Dec-1961	86.40%	1512
26-Jun-1962 to 9-Feb-1966	79.80%	1324
7-Oct-1966 to 29-Nov-1968	48%	784
26-May-1970 to 11-Jan-1973	73.50%	961
3-Oct-1974 to 28-Nov-1980	125.60%	2248
12-Aug-1982 to 25-Aug-1987	228.80%	1839
4-Dec-1987 to 24-Mar-2000	582.10%	4494
9-Oct-2002 to 9-Oct-2007	101.50%	1826
9-Mar-2009 to 19-Feb-2020	400.50%	3999
23-Mar-2020 to 3-Jan-2022	114.40%	651

Summary

In summary, we believe the sell-off means that it is likely to be one of the years that only occurs a few times in an investor's lifetime. We don't know how long it will last but as net buyers of stocks, our view is that cheaper prices should help us achieve our long term return goals.

Strategy

Strategy - Fertile hunting grounds

With interest rates rising and long-duration growth assets getting re-rated lower, investors have been indiscriminately selling growth companies that have negative cash flows and/or low margins. Suddenly, we have a lot of beaten-down stocks to choose from that we believe offer the prospect of great returns in the medium term. Our strategy is to focus on:

- "Babies thrown out with the bathwater" - good companies that have been indiscriminately sold down with the deeply out of favour sectors, especially fast growing companies with strong market positions and business models.
- Businesses still recovering from the pandemic - there will be a long period of "revenge" travel and business travel will continue to recover back to, and eventually surpass, 2019 levels.
- Businesses that will benefit from a rising interest rate environment - particularly banks which have suffered from zero interest rates where profitability is set to improve.
- The global energy transition - replacement of Russian commodities will be expensive, difficult and will likely lead to relatively high commodity prices and the continued acceleration of renewable energy technologies.

There are potential bargains awaiting discerning investors during an indiscriminate sell-off. Everything we do at SGF is based on an in-depth qualitative and quantitative analysis of each business. We discuss several companies on which, through the course of our research, SGF has a far more bullish view than the deeply negative consensus. Each of these stocks is down 70%-80% from its highs.

Existing Positions

Most of what we own has not been immune from the sell-off (with the exception of certain commodity focused companies). We believe that our companies' stock price declines are driven principally by the overall stock market disruption due to uncertainty about interest rate policy and its impact on equity markets, and the recent war in Ukraine.

We have experienced large declines in company share prices before but it certainly never feels any easier. The recent negative movements in our portfolio's valuation feels painful. We remind investors we expect that this is a temporary mark-to-market loss. As the fund is not leveraged, we are not forced sellers and can hold through difficult periods such as the current one.

Given our long term focussed time frame of investing, our ability to remain emotionally stable when share prices are down significantly is a key competitive advantage. As fundamental investors, we obsess about how our businesses are performing:

- How is sales growth?
- How are margins?
- What new products are being released?
- Is management performing?
- What will earnings be?

We can't measure these things in share prices, which are simply what you pay to own part of a business at a given moment.

In a perfect world, we would report consistent growing returns to you, our investors. However, it is important to stress that intermittent periods of downward volatility create opportunities to plant the seeds for greater long-term outperformance.

We are excited about the outlook for our core longs. We expect them to regain their former highs and compound from there at attractive rates for years to come. The table overleaf sets out our internal target prices for our core holdings:

Existing Positions cont.

Core holdings							
Company	Ticker	Market cap	Current price	Target price	Upside	Target valuation	Summary
Digital Turbine Inc	APPS	US$1.8B	$17.00	$100.00	488.24%	Valuation is based on 2025 EPS of $4 per share and a P/E of 25x, commensurate with a large-scale software platform business.	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. Until 2021, the company's core business consisted of being the largest provider of "pre-installed apps" on Android through the company's Ignite software platform. Through exclusive contracts with over 40 of the largest global cell service operators and OEMs like AT&T, Verizon, and Samsung, Digital Turbine's software allows companies like Uber, TikTok, and more to pay for the privilege of pre-installing their apps on the device upon activation. Digital Turbine shared this revenue with the cellular carriers and OEMs, creating a moat and flywheel that has allowed it to grow its on-device presence from 10 million to 700 million Android phones (< 20% global market share) over the last 5 years. 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.
ACV Auctions Inc		US$1.1B	$6.61	$24.00	263.09%	Valuation target is based on 2026 EBITDA of $325m, in line with company expectations.	The $11.5B US wholesale dealer-to-dealer vehicle industry appears ripe for disruption. With unmatched vehicle inspection and condition report capabilities, ACVA appears best positioned to benefit from the industry's ongoing shift from physical to digital wholesale vehicle auctions. Despite near-term industry headwinds related to new vehicle supply challenges and lower prices for wholesale vehicles, ACVA continues to take market share from physical auction incumbents. Unlike many of its money losing automotive e-commerce peers, ACVA's business model is relatively asset light. With $352M in net cash (excluding $152M in auction float) and minimal FCF cash burn, ACVA has more than sufficient liquidity and capital to support its current and future growth plans.
RumbleOn Inc			$16.00	$70.00	337.50%	Valuation target is based on 7x our expectation for 2023 earnings of around $200m.	RumbleOn's industry-leading scale and technology should allow it to become the dominant market maker and online marketplace for new and used motorcycles. Investors fled the stock after a disastrous attempt by RMBL to expand into used cars (quickly abandoned) nearly tipped the company into bankruptcy. The market appears to lump RMBL in with high cash-burn auto e-commerce companies that have fallen out of favor (CVNA, VRM), but motorcycles are a different (more profitable) business. RMBL screens poorly. A transformational acquisition (RideNow) is being overlooked by the market. We expect the business to generate over $145m EBITDA relative to its market cap of $280m.
Universal Music Group	UMG		$20.00	$30.00	50.00%	Valuation target is based on a 22x P/E on our expected 2024 earnings	Universal Music Group is the world's leading music entertainment company. It is a high-quality business that is best placed to capitalise on the continuing growth in streamed music. In many ways, it can be thought of as a tax on the world's streaming of music. The company has a very long-term growth trajectory. The music industry has recovered from its dark days of music piracy and is now more profitable than in the heyday of CDs. The great thing about streaming music is that the music companies don't have to incur the cost of producing CDs with the risk of managing inventory. We believe that streaming music has many decades of growth ahead of it. Together with the development of new services, Universal should be able to grow its profits at double digit rates for the next ten years and beyond while requiring little in additional capital. There have been some concerns raised about the cost of recent acquisitions, such as USD $400 million to buy Bob Dylan's song catalog and the recent purchase of Sting's back catalog. We have considered this risk but believe it is manageable due to Universal's ability to monetise such purchases and the irreplaceable and long-life nature of these assets.
Kaspi Bank	KSPI	US$8.9B	$40.00	$80.00	100.00%	Valuation target is based on a 22x P/E on our expected 2023 earnings	Kaspi's business model can be divided into three platforms serving both merchants and consumers, all offered through one Super App: - Payments, Marketplace, and Banking. Recent results were very strong with net income up by 49% year over year. Recent guidance suggests between 20 and 30% growth. Despite this, the company trades at a P/E of around 6x. The company is using its free cash flow to repurchase its own shares so our portfolio companies and their shareholders are the long-term beneficiaries of their recently reduced stock prices.
Energy transition basket	Various	US$1B to US$60B	Various	Various	Target of 20% per annum	Various.	Various companies that are set to benefit from the ongoing energy transition.
Evolution AB	EVO			$1,800.00	90.68%	Valuation target is based on a 25x P/E (a discount to historical rates) on our expected 2024 earnings	Evolution Gaming provides live casino games, dominating the European market with 70%+ market share. Evolution is an exceptionally high-quality business due to its impressive returns on capital, long growth runway, increasing market dominance, and significant scale advantages. The majority of EVO's revenue is derived from a ~10% take-rate of all revenue generated by casino operators licensing EVO's games.

Existing Positions cont.

As indicated by the table above, when we look at our portfolio today our expected returns have never been higher at approximately 35 to 40% per annum for the next 4 years.

Does this mean that stocks won't fall any further? No, of course not. It is impossible to say how far a sell-off can go when sentiment changes dramatically. Many share prices reflected a high level of euphoria and not everything that has reduced in price is a bargain. However, we believe that the sell-off in parts of the market has created the opportunity to purchase high-quality, long-duration growth assets at attractive prices. And that is exactly what we are doing with recent purchases of AVAC and AHT as discussed below.

New position: Ashford Hospitality Trust

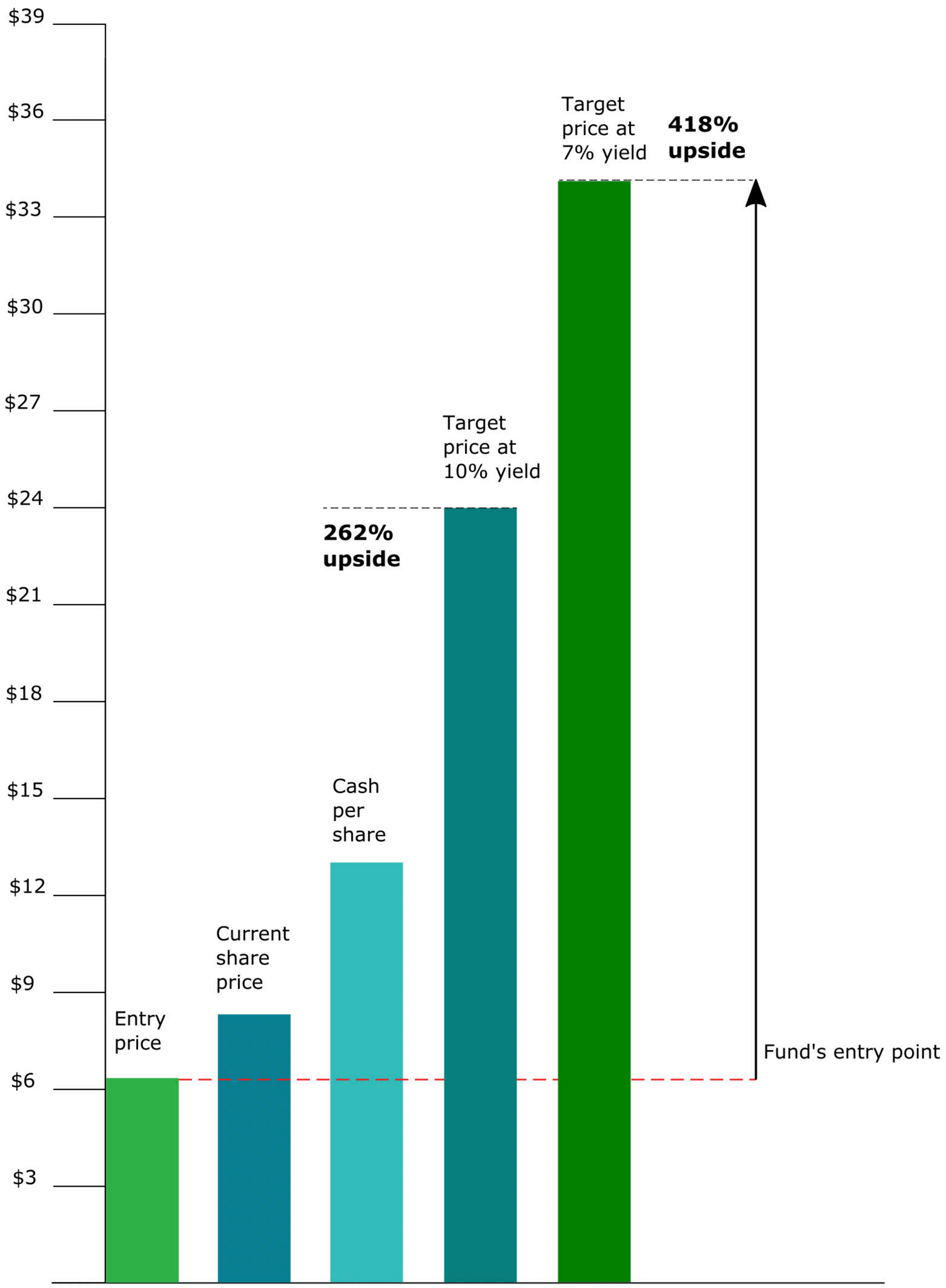
Real estate investment trusts, or REITs, are companies that hold portfolios of real estate and distribute most of their free cash flow as dividends. Since most REITs do not offer significant returns over their dividends, we typically don't invest in them. Occasionally, circumstances occur that make investing in REITs compelling. That is the case with Ashford Hospitality Trust (AHT), a US listed owner of 101 upmarket hotels under well known brands such as Hilton, Hyatt, Marriott and W Hotels.

The pandemic was of course not kind to AHT as investors concerned about the prospect of empty hotels were left asking questions that were previously unthinkable. Would people ever stay in hotels again? To survive this period and conserve cash, AHT was forced to convert outstanding preference shares that were receiving large dividends into ordinary equity shares. This caused the share count to increase and newly converted preference share holders that likely only owned the position for the dividend were now left holding ordinary shares with no dividend. As a result, they elected to sell the shares with little regard to price.

At our entry price, we feel we have obtained a great bargain. AHT has net cash of over $600m against a total market value of $200m at our entry price! In addition, they hold 101 hotels. If you accord no value to the hotels at all - even for hotels such as the Beverly Hills Marriott - there is 3x upside from our entry price for the company just to trade at the value of its net working capital ($16 per share).

Ashford Hospitality Trust

The following table sets out our target price.



ACV Auctions

Rarely has an industry sold off as indiscriminately as technology has in 2022. It has gone from the most sought after to the the most reviled. Valid concerns around bubble valuations of certain prominent companies with questionable business models have been extended to the entire sector, with the result that many good companies are down a lot. Not every company is a bargain as for many, even after significant drops, the valuation remains too high. This was simply a reflection of how overvalued many companies were at the top. As these concerns continue to weigh on the entire technology sector, we believe there are a number of proverbial "babies thrown out with the bathwater".

One such company we have identified is ACV Auctions (ACVA) which runs a 100% digital auction platform for used car dealers to source and dispose of used vehicle inventory. ACV's primary product is a 20 minute auction conducted following an on site diagnostic performed by an ACV Vehicle Condition Inspector. ACV offers ancillary services such as vehicle pick up and delivery, as well as a financing option.

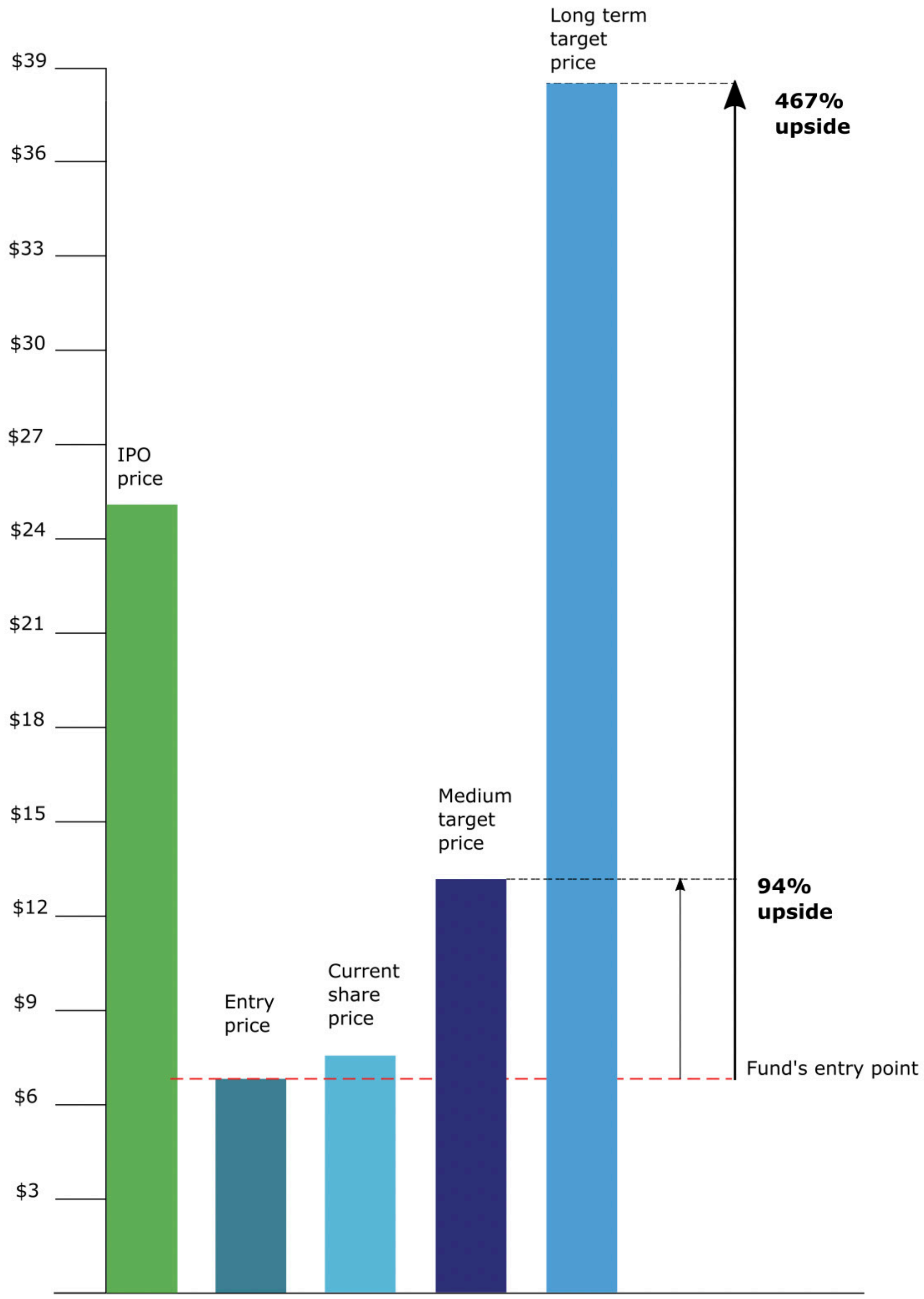
The $12B US wholesale vehicle industry appears to be an industry that appears to be ripe for disruption. Most car dealers still attend traditional physical auctions whereby they inspect the cars briefly before bidding. This is an inefficient, high cost way of dealers buying cars as they have limited vehicle conditional data and there is little trust between buyer and seller. ACVA is the best placed company with a solution to these challenges due to its digital marketplace. ACVA provides exceptional service to help dealers make more informed decisions. An analogy would be finding a car on carsales.com.au versus the old way (for those that remember) of browsing pictureless ads in the newspaper.

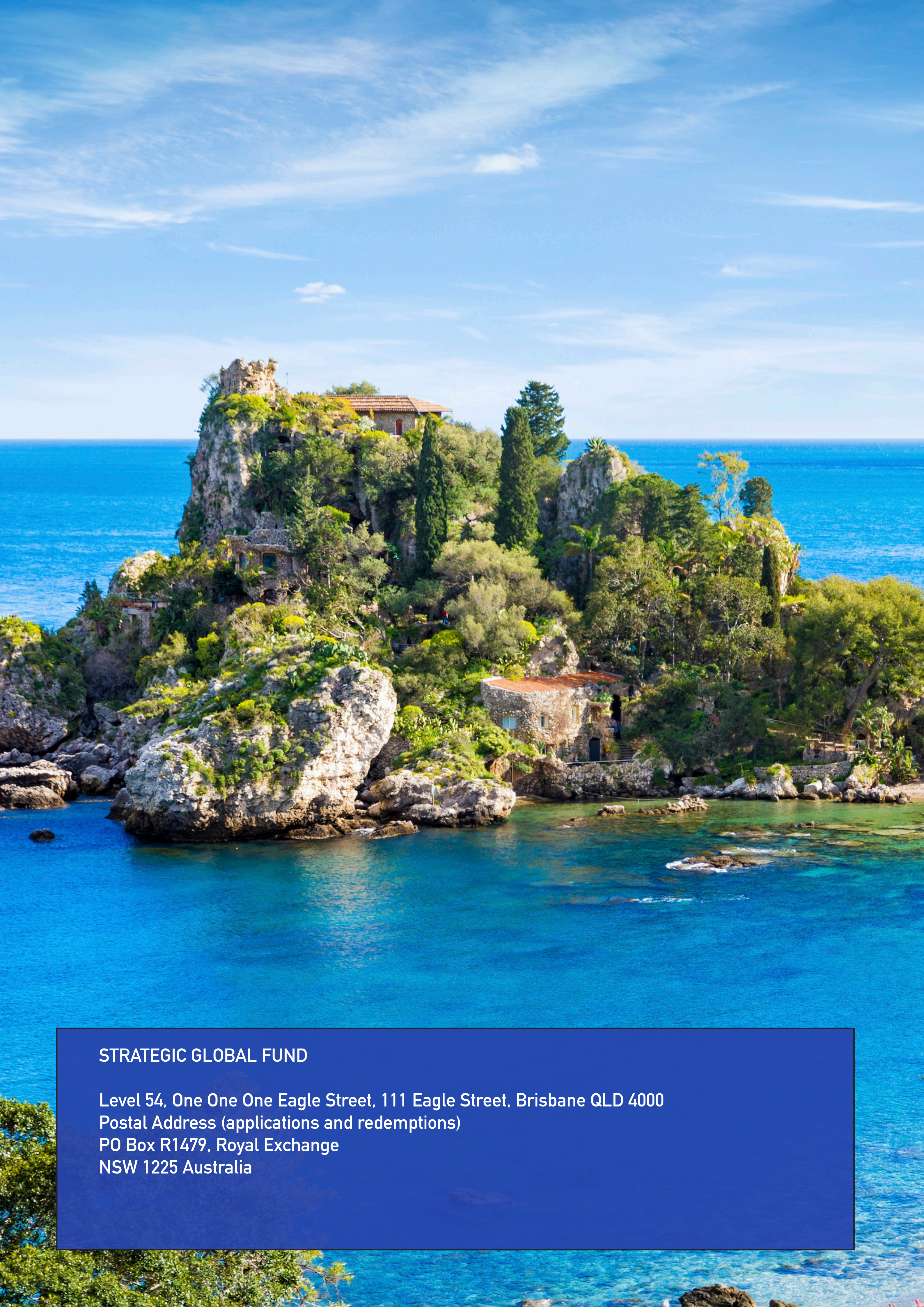
The runway for future revenue growth is substantial as only 13% of dealer-to-dealer wholesale vehicle transactions are conducted digitally. As the leading digital marketplace, ACVA should be the prime beneficiary of the ongoing digital transformation of the industry. Despite recent industry headwinds which saw a -18% decline in the overall US wholesale market, ACVA still continued to take market share with +9%.

Despite its recent launch in 2015, we estimate ACVA's digital auction controls ~5% of the retail dealer wholesale vehicle market. The company is investing aggressively in technology initiatives and service offerings to broaden its geographic reach, enter new data service and wholesale vehicle markets and gain market share in its core retail dealer wholesale market, pressuring profits in the near term. The runway for revenue growth at ACVA is enormous with a US TAM of at least $30B for wholesale vehicles, excluding the company's fast growing, high margin SaaS and data service offerings.

ACV Auctions cont.

ACVA expects double-digit annual revenue growth and improving economies of scale to allow breakeven EBITDA performance by year end 2023. By 2026 ACVA expects to generate adjusted EBITDA of $325M (25% margin) on revenue of $1.3B. We think this long-term financial target is very achievable.





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