Investor Report

30 June 2023

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.

STRATEGIC GLOBAL FUND

ARSN 613 886 392   APIR OMF0027AU

HALF YEAR REPORT   June 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

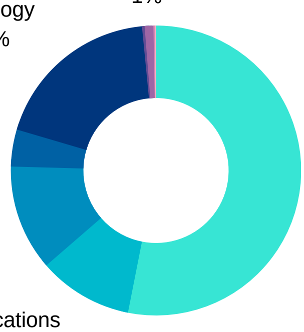
NET PERFORMANCE

1 Month	1.26%
3 Months	1.47%
6 Months	4.71%
1 Year	7.27%

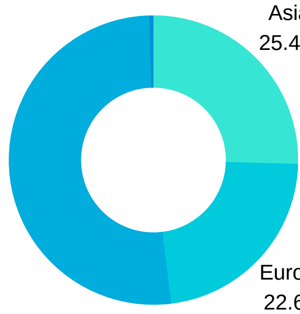
TOP TEN HOLDINGS

Company	Sector
Universal Music Group	Communication Services
ACV Auctions	Consumer Discretionary
Evolution Gaming	Consumer Discretionary
Hibbett	Consumer Discretionary
Rumbleon	Consumer Discretionary
Carlisle Companies	Industrials
Deere	Industrials
Open House	Real Estate
Kaspi Global	Technology
Longi Green	Technology

INDUSTRY EXPOSURE



GEOGRAPHICAL EXPOSURE



Observations

Productive quarter

Our objective in writing this report is to discuss the results of our portfolio companies over the past six months and update you regarding new and closed investments. Equally importantly, our goal is to explain the long-term thinking behind our selection process for the companies that make up SGF's portfolio. Our wish is for you, our investors, to understand our investment process which is the driver of long-term portfolio returns. As we have seen in the past few years, in the short term, the stock market can be both irrational and unpredictable. In the long term, however, the market will evaluate companies by the profits they make. Our approach is that as long as our investment process remains rational, investment returns should eventually follow.

Patience is a necessary requirement for our process to work. To use a portfolio example, for most of the time we have owned **Evolution**, the shares they have traded at less than what we paid. Even for a high quality company such as this, the share price can take time to catch up to business results. We stuck with the business and have seen it deliver strong results quarter after quarter. We are now slightly in profit on the position and believe the best is yet to come. It is a similar story with **Kaspi** - an extraordinary business - which declined in value by half from our initial purchase at one point and is now above our purchase price.

It was a productive quarter as a number of new long-term focussed ideas were added to the portfolio. We retain a high cash balance and have also opportunistically added to positions on weakness. At the macroeconomic level, inflationary pressures have noticeably begun receding and many market participants are likely anticipating that rate rises will moderate or stop. We are still seeing higher interest rates continuing to challenge the profits of many businesses in the short term. However, our focus remains on buying special businesses on a long-term view and shorter term special situations.

We have built some new positions in some high quality companies that we have been researching for some time, which we detail further below.

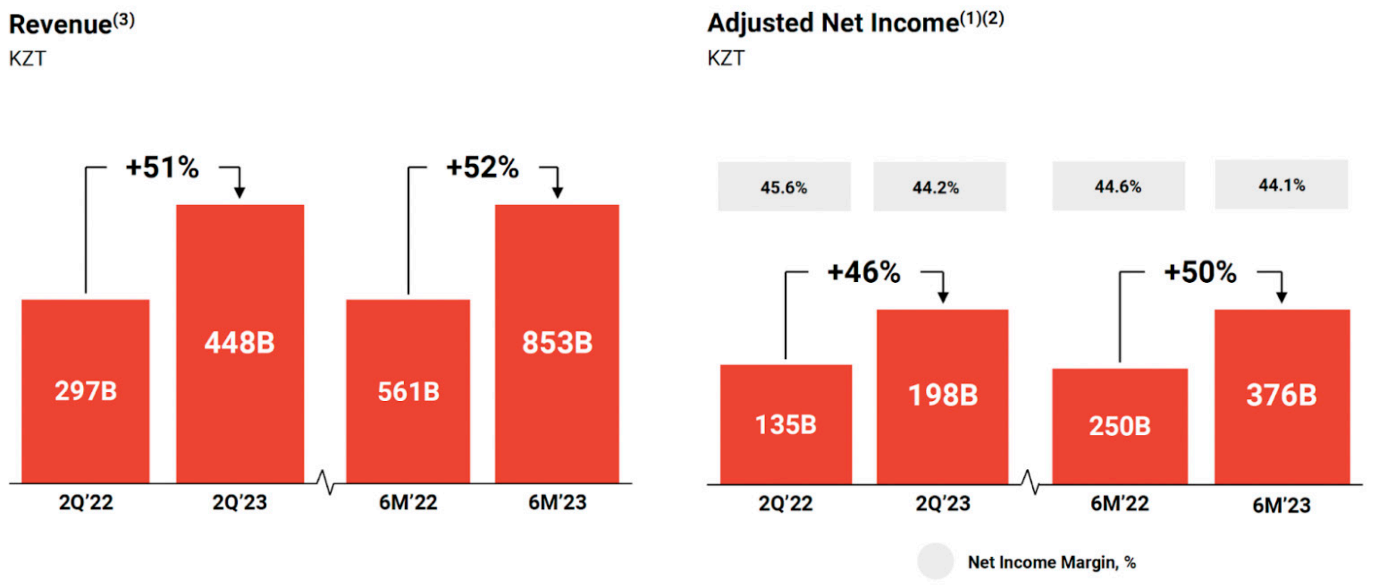
Portfolio News

Our extraordinary three largest holdings:

- **Universal Music** delivered solid results with first half profits up more to €1.1B, an increase of 15.6% year-over-year. Universal is a highly attractive, inflation-protected business led by a best-in-class management team that operates in an oligopolistic industry with significant barriers to entry. We continue to believe this to be an amazing, unique business that acts as a toll bridge that consumers must pay to cross in order to listen to some of the best music in the world.

  We were listening to a UK comedian recently who joked that before mobile phones: "*when you left the house, you didn't load every photograph you have ever taken as well as every piece of music you own into your car before you head out for the day - which is of course what we do now each day with our mobile phones*". We continue to believe that the value proposition for the consumer from music streaming is compelling and there is a lot of scope for prices to rise. This creates a long runway of predictable, recurring revenue growth for Universal that is largely insulated from the wider economy.

- Like clockwork **Kaspi** delivered outstanding results with a successful first half as seen below:



Every division of the business continues to perform superbly with transaction volume continuing to increase at a rapid pace. The company has done a great job of adding new divisions and upgraded its profit forecast to an increase of 30% profit growth for the year ahead. Despite the recent performance, Kaspi remains undervalued relative to the quality and growth of its earnings.

Portfolio News

Portfolio holding **Evolution** continues to exceed our expectations. The company is 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 that is followed 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.

The real power of Evolution's strategy and the source of its competitive advantage is that as its scale grows, it reinvests heavily in its products to ensure industry leading quality. This makes it harder to compete against as it grows. Because it has far more end customers than its competitors, its fixed costs (people and technical R&D spending) are spread across more customers. This lowers the per unit cost of the product offering. As a result, competitors struggle to offer a comparable quality product at the cost Evolution can.

Evolution's extraordinary financial economics are the product of this virtuous cycle. Profit margins are uncommonly high - let alone for a company growing revenue and profits so fast. To demonstrate this, we ran a stock screen on all listed companies larger than $10 billion in size (by market capitalisation) and of a universe of 1,843 companies, only 31 companies have profit margins equal or better than Evolution's (portfolio holding Kaspi makes the list!). Once you limit the list to companies growing by 50% or better per annum for the past five years or better, the list drops to only 12 companies. Evolution is in rarefied air indeed!

The business is highly cash generative and that ensures funding for both its organic growth and acquisitions of complementary businesses. We expect Evolution to continue to take market-share and to increase the gap to its competitors. The price of the shares are not outright cheap but are nevertheless attractive taking into account Evolution's current and potential growth rate. We entered the position at 1049 SEK per share and the shares currently trade at 1259 SEK per share.

Exited Positions

We exited our investment in **RumbleOn** after we felt that recent results called management's credibility into question. Although optically very cheap, (net income of $80m on a market cap of $115m but with debt of $350m) management have missed the last three quarter's guidance and slipped a one line disclosure that the company was looking to "right size" its balance sheet. This indicates that a rights issue or other capital raise is coming - so we elected to watch from the sidelines. This was a disappointing result.

More positively, **ACV Auctions** was a standout - rising by another 35% over the quarter, bringing our gains on the position to around 110%. We took profits on the position as the valuation came close to our longer term target price. We expect that the business will continue to deliver on its long term goals but expect in the shorter term that dropping used car prices will have to impact its progress.

New Positions

Carlisle (CSL)

In the face of signs of weakness in the US housing market, we established a position in a 100+ year old business named Carlisle (CSL). CSL began life as a rubber manufacturing business and in the post-war period diversified into a wide variety of businesses. The end result was an unwieldy old style conglomerate with a motley collection of divisions that lacked focus. Over the past decade, the management team has pursued a simplification strategy, turning CSL into a specialty construction materials company. We believe that investors have largely overlooked the slow motion transformation that is now nearly complete. The company is still being valued like an old conglomerate, and the value of its hidden gem - its roofing business - is under-appreciated and overlooked.

From the personal experience of your fund manager, nothing is more annoying than a leaking roof. For some 20 plus years, my father sought to identify the source of a small, but constant, and irritating, leak in the roof. Water moves in mysterious ways and the true source of the leak was only discovered after many attempts of pulling up and patching old Butynol roofing membrane. Eventually, it was discovered that the leak in question began some 20 metres away, moving left and right, up and down, from where it dripped into the house. Leaks are annoying and patchwork repairs will only work for so long. At some point a new roof is required!

This is where CSL comes into play. In the US roofing business, it is the leader in an oligopolistic market. The business is resilient given that around 70% of its work is re-roofing. In the time that CSL has been undergoing its structural transformation the roofing industry has transformed to a more consolidated state. Competition tends to be relatively subdued due a confluence of factors. Architects are naturally reluctant to specify an unknown roofing product given the risk of an untested product. Similarly, builders don't want to use untested products and expose themselves to potential warranty claims. Accordingly, it tends to be a difficult market to break into for prospective new entrants. CSL benefits from a largely variable cost-structure which allows the company to generate significant profits in weak-volume environments. As a test of this, CSL was still cash flow positive during the GFC.

The business has two main tailwinds:

- Replacement demand - growing re-roofing demand from buildings that were completed in the late 1990s that now need replacement roofs given an average useful life of 20-25 years.
- Energy efficiency - Increasing demand for more energy efficient buildings benefits CSL as the largest roofing insulation manufacturer in the US. They also sell products such as spray-foam insulation, water barriers and roof coatings to make the building envelope more efficient.

For a large company (market cap of over $13.4 billion), CSL is very underfollowed with no meaningful broker coverage. Currently, CSL trades at around ~11x P/E for 2023. As the high quality nature of its roofing business becomes evident, we expect it to trade closer to a peer valuation of around 17-20x P/E. Recent private market transactions have completed at similar valuations. In summary, we believe that CSL represents an underappreciated high quality business available for investment at an undeserved low valuation stemming from the historic conglomerate discount.

New Positions

Richelieu Hardware

We established a new position in Richelieu Hardware, which is a Canadian based manufacturer and distributor of specialty hardware (think taps, window fittings, locks, hinges etc)! Richelieu offers a highly diversified product selection with over 130,000 SKUs that it manufactures and distributes via long-term relationships with leading hardware suppliers across Canada (initially) and the USA (which has far more growth opportunity).

Our working observation is that long-standing and trusted hardware brands enjoy meaningful competitive advantages. The consumer has little incentive to risk a slightly cheaper product as it is typically purchased for their own home to be used everyday so reliability is paramount. Do you really want to save a dollar to have a drawer slide that catches when used? For commercial jobs, architects and builders will not risk unfamiliar new products that lack a track-record (and take the attendant warranty risk). When one walks around a local hardware store it is the norm to see that many brands are over 50 years old.

This has proved to be a reliable business and growth has proved to have been remarkably steady with only one down year since 1992 (during the Great Financial Crisis). Over the last 30 years, Richelieu Hardware has steadily grown revenue organically and through acquisitions at a CAGR of 11.8%. Earnings per share have grown even faster thanks to frequent buyback from the company with a CAGR of 14% since 1992. This remarkable success over its history has seen revenue growing from a mere $28 million to $1.8 billion in 32 years!

A major driver of Richelieu Hardware's growth is its acquisition strategy of buying manufacturers and distributors of specialty hardware products. It has made over 84 acquisitions in the last 32 years. It operates in a highly fragmented market which provides it with many acquisition opportunities in new territories in order to strengthen its operations in its existing markets. Starting in Canada it then expanded into the US, which now represents 40% of sales. We see the long term outlook for Richelieu across the US is immense and we believe that its best is yet to come and are excited to be shareholders.

New Positions cont.

Protector Forsik

We established a position in Protector Forsikring, an outstanding Scandinavian insurer we have followed for some time. It operates with one of the lowest cost-ratio of any insurer worldwide. It has grown its top line 20% annually for a long period. At the same time, it has been a disciplined underwriter. Their impressive results are driven by their culture – doing many little things better than their competitors rather than one obvious business advantage. This lack of obvious edge may make the company harder to understand for investors. Despite being one of the best performing businesses in the Nordic markets over the past decade, it trades at an attractive earnings multiple. Protector is also overcapitalized which could result in increasing dividends.
Protector has historically grown its premium volume by over 18% yearly. Together with dividends and share buybacks they have delivered a +20 % shareholder return for the same period. In simple terms, the business model 'recipe' for growing earnings is as follows:

- Target combined ratio of 90%, meaning Protector is paid 10% a year to hold its customers' money (the "float");
- Invest this float has yielded another 7% per annum
- Grow the float by >20% per year.

The nice thing is that for Protector to continue to deliver outstanding results for investors in the future, it simply has to continue doing what has worked so well for it in the past. We believe that long term shareholders will be well rewarded.

Austal Shipping

We established a position in Austal, an Australian listed shipbuilder that primarily builds ships for the US Navy and Coast Guard. Based on media reports, it appears that a takeover offer is imminent. Since those reports, Austal has announced significant contract wins, including a $3.2bn, long-term new-build contract for the US Navy. The business is relatively average in quality, generating a typically modest shipbuilding margin. The announced wins put the business at a low earnings multiple - half that of US listed comparable companies - which should make it an attractive takeover target. The recently announced purchase by Australia to acquire a total of eight nuclear powered submarines under a $368 billion deal adds another angle for a potential acquirer. This large deal will lead to large amounts of local shipbuilding and maintenance work - much of which is typically, for political reasons, mandated to local firms. As Australia's only shipbuilder, Austal should be well placed to pick up a lot of this work (likely in partnership with a large overseas defence contractor). We believe that there is a good chance of a competitive auction for the asset that could lead to windfall gains for shareholders. The low valuation due to the recently announced project wins provides downside protection..

New Positions

Hibbett Inc

Hibbett Inc (Hibbett) is an athletic fashion retailer that we have commenced buying for the portfolio. With just under 1,100 stores, Hibbett has taken a Walmart type expansion approach - opening stores in underserved towns you likely have not heard of, in order to avoid competition. As the CEO, Mike Lungo remarked "We're in areas like Philadelphia, Mississippi, not Philadelphia, Pennsylvania". Approximately 70% of Hibbett's stores have 2 or fewer competitors within a 15-minute drive. This is relevant for a few reasons:

- Hibbett avoids competition which allows for better margins.
- Nike needs Hibbett to reach such otherwise hard to reach customers mitigating the risk that Nike (Hibbett's largest stocked brand) will cease supplying it.

One of our idea sources is listening to a lot of industry specific podcasts. From this source we came across the CEO, Mike Lungo and were impressed with what he has accomplished at Hibbett. Since taking over management after selling his business, City Gear to Hibbett, he has managed to change the culture of the organisation and increased margins from below 5% to over 13%. As a result, sales increased from $1 billion to $1.7 billion and pre-tax earnings have increased from $44m to $228m!

Previously Mr Lungo was head of distribution at AutoZone. The reason why this matters greatly is AutoZone's share buyback strategy. Since 2001, AutoZone has bought back over 90% of its outstanding shares. This share count shrinkage over a time period in which earnings increased by roughly sevenfold, saw earnings per share (EPS) grow by over 34 times! Shares of AutoZone increased by 100x since it commenced this buyback strategy. Encouragingly, Mr Lungo is following a similar strategy at Hibbett having bought back over $300m worth of shares in the part two years (relative to a $800m market capitalisation). Trading currently at around $60, guidance is for earnings of around $10 this. At the level of buybacks we anticipate, EPS could grow to around $17 per share in a few years.

We have been patient in building out our position as Hibbett has declined by close to 40% from its highs as the benefits of a COVID sugar rush of sneaker spending faded, giving us what be believe to be a good entry point for the long term. The company lowered its annual guidance as it is seeing cost-conscious consumers cutting back on sneaker and sports apparel purchases. We remain impressed with the management and believe the current valuation is very attractive. Historically, the company has been large buyers of their own shares and have shrunk the share count substantially over time. Accordingly, should the price remain at current bargain levels we expect the company to make highly accretive share buybacks.

Summary of Core holdings

Core holdings								
Company	Ticker	Market cap	Entry price	Current price[1]	Current P&L %	Target price	Upside[2]	Summary
Universal Music Group	UMG	€42.6B	€23.01	€23.47	2.00%	€30.00	27.82%	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	$17.50B	$86.00	$92.30	7.33%	$150.00	62.51%	A rare fast growing, highly profitable Super App serving: - Payments, Marketplace, and Banking.
Evolution AB	EVO	$25.13B	1049 SEK	1259 SEK	20.02%	$2000.00	58.86%	Evolution Gaming provides live casino games, dominating the European market with 70%+ market share.
Hibbett Inc	HIBB	$570M	$55.50	$44.72	-19.42%	$85.00	90.07%	Retailer of athletic products, especially Nike products focused on regional towns which have less competition, low valuation.
Carlisle Companies Incorporated	CSL	$13.8B	$234.10	$278.31	18.89%	$360.00	29.35%	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	$2.41B	$42.73	$43.20	1.10%	$80.00	85.19%	Canadian hardware retailer expanding with success into the US market via organic growth and M&A with a long runway of growth ahead.
Deere & Co	DE	$126B	$408.95	$430.53	5.28%	$600.00	39.36%	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	$30.7B	$41.28	$29.09	-29.53%	$54.00	85.63%	Leading solar technology business with a huge growth pipeline, selling as much as it can manufacture.
Open House	3288.JP	$4.5B	6010 JPY	5329 JPY	-11.33%	9000 JPY	68.89%	Japanese property developer with a niche of developing low cost housing in central cities near public transport.
ACV Auctions Inc	ACVA	$2.73B	$7.99	$17.06	113.52%	$24.00	40.68%	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.
2 Upside to our target price from the share price as measured at 02.08.2023.

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

STRATEGIC GLOBAL FUND

Level 54, One One One Eagle Street, 111 Eagle Street, Brisbane QLD 4000
Postal Address (applications and redemptions)
PO Box R1479, Royal Exchange
NSW 1225 Australia