STRATEGIC GLOBAL FUND

ARSN 613 886 392   APIR OMF0027AU

MONTHLY UPDATE — March 2020

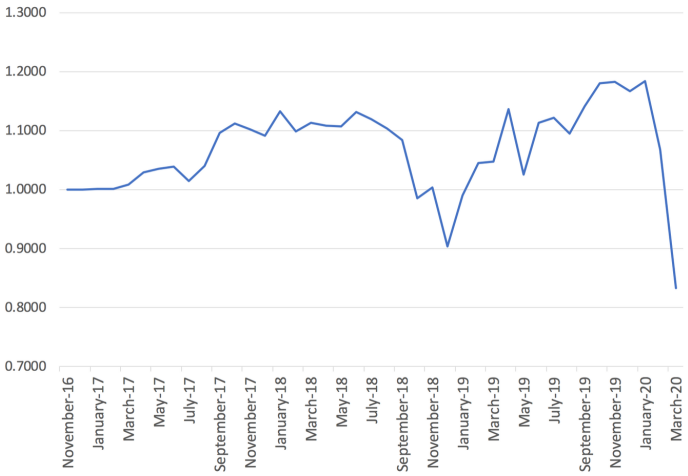
FUND FACTS

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



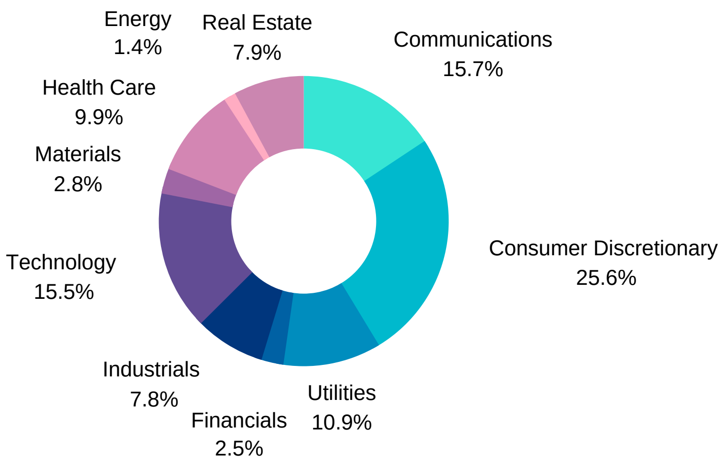
NET PERFORMANCE

1 Month	-22.00%
3 Months	-28.56%
6 Months	-26.98%
1 year	-20.30%
2019 Return	29.20%

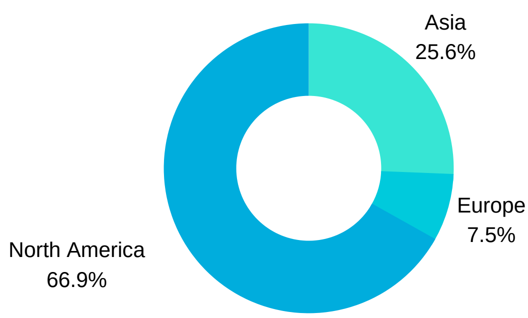
TOP TEN HOLDINGS

Company	Sector
Nexstar Media Group	Communications
Icahn Enterprises	Consumer Discretionary
LKQ	Consumer Discretionary
Tiffany & Co	Consumer Discretionary
Bausch Health	Health Care
Owens and Minor	Health Care
Magnachip	Information Technology
Technology Data	Information Technology
Shinoken Group	Real Estate
Vistra Energy	Utilities

INDUSTRY EXPOSURE



GEOGRAPHICAL EXPOSURE



Strategic Global Fund - March Update

The global pandemic sent markets, and all of our lifestyles, into a tailspin during March and April. Leaders in this crisis have faced a particularly difficult trade-off: either let the pandemic spread[1] or contain the disease and ruin the economy for a time. Our hearts go out to those suffering from the illness and those of us who have lost loved ones. It is also upsetting to see people lose their jobs on a large scale. We have a great deal of sympathy for those impacted by these events be it personally or economically.

The Government response to the Global Financial Crisis (**GFC**) was to bail out 'too big to fail' banks. This resulted in a strong recovery but it came with dramatically increased financial leverage in the system. The financial measures were always designed to be temporary but they became permanent. The decade of easy monetary policy since then is now set to continue into the future for some time. Zero or negative rates reflect a weak economy with difficulty servicing its debts. Prior to the GFC, we felt that billion was a big number. After the GFC, talk of billion dollar rescues became commonplace. This time around, trillion is the new billion when it comes to economic rescue packages. And we expect that the first three stimulus packages will be followed by many more with the intention of supporting the economy and keeping interest rates low.

Unprecedented money printing should be, in our strong view, very supportive of the gold price. This view led us to our new position in **Sandstorm Gold**, which in April became the Fund's largest holding and has increased in value since purchase by a third. We believe it has a long way to go before reaching fair value.

The sell-off was very unusual. As we read about the pandemic[2] we felt that our portfolio was well placed to weather the storm. We had been wary of elevated valuations in a few sectors and avoided such crowded positions. We had a good cash holding and businesses we felt were very defensive (including a high exposure to energy utilities and similar boring and safe businesses like packaging). Our initial concern was our holding in **Sea Limited** - an Amazon-like online retail business in Asia with a video game business division. Although it is a high quality and fast growing business but one which we felt was priced for high growth. However, the sell-out played out in the opposite way to our expectations as it was Sea Limited that held up, barely selling off and subsequently <u>increasing</u> in price. Conversely, and against our expectations, it was Vistra, a low-priced, defensive power company selling an essential product that declined in price substantially (prior to recovering slightly). Companies that held debt, even at levels that looked sensible prior to the crisis, were swiftly punished by the market.

Strategy

[1] As Brazil, Belarus, Turkmenistan and Nicaragua have done in the so-called 'Ostrich Alliance'.
[2] The journal Lancet is an excellent and credible source.

For the first time in a long time, we believe we are presented with 'a market of stocks' rather than 'a stockmarket.' There is an incredible level of value dispersion present not just within the market, but within adjacent sectors and businesses. At moments of extreme panic, which we have witnessed recently, there are many proverbial babies thrown out with the bathwater.

As the fund manager of SGF, through our sister fund which has been around for 12 years, we have a long history of investing during periods of dislocation - ranging from the oil spill in the Gulf of Mexico to currency collapses and individual companies scandals. As such, we believe we have a useful skillset for negotiating the current period. There are many opportunities for long term investors but also many potential pitfalls which must be avoided. With this in mind, our strategy to take advantage of the current opportunity set is grouped into five categories:

1. **COVID champions** - These companies are either not impacted by the crisis or will increase earnings due to increased demand arising from the crisis.
   General markets examples[3]: Amazon, Zoom, Costco, Intel and various healthcare companies such as Gilead.
   Portfolio examples: **Luminex**, a maker of COVID-19 test kits and a beneficiary of recently announced US$25 billion US government funding to this space in the face of widespread testing shortages[4].
   Observations: most of these companies have not traded off in a meaningful way, or they were expensively priced to start with, so there is less prospect of an outstanding future return given much of the upside is priced in. For the most favoured healthcare companies, such as Gilead, there is the risk that they will fail to develop a vaccine, or will face political pressure to not profiteer from it. Gilead, perhaps foreshadowing this, announced it will give away one million doses for free. We are focused on finding compelling investments where investors have overlooked businesses likely to benefit from the current crisis response.

2. **Dominant high quality businesses with short term headwinds** - businesses with world class operations with unimpeded long-term growth prospects but facing short term impacts. No question on survival. We are talking about the highest quality businesses in the world with the most defensive business qualities. These champions feature the largest defensive moats around their businesses owing to brand name, industry dynamics or culture and execution.

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[3] General market examples are not owned by SGF.

[4] The US Federal Government announced that US$25 billion of a US$400 billion spending bill that is currently before Congress will be directed towards rapidly expanding testing capabilities using existing SARS-COV-2 testing technologies. Reimbursement levels for testing kits have been doubled. The flow of funding should benefit all companies in the space - Luminex produces a lower throughput testing platform. Although this is a less attractive technology option for labs, the providers of higher throughput testing platforms cannot keep pace with the new levels of demand.

General examples: Nike, HDFC (a dominant bank), LVMH (Louis Vuitton owner), food and flavouring businesses, quality testing businesses
Portfolio examples: Adidas[5]
Observations - some world class businesses have sold off significantly providing a likely once-in-a-decade opportunity to own some of the finest businesses in the world at more reasonable prices. There are companies that can be expected to deliver compounded 15% to 20% annual returns over a meaningful time period once the current situation normalises. Many of the businesses that fit the bill here have not traded down meaningfully which limits the opportunities available.

3. **Opportunistic situations**: this covers ideas that do not fit neatly into the above categories but equate to very compelling return opportunities. Our focus here is complex corporate situations whose complexity means that most investors will not bother to do the fundamental research to ascertain if there is compelling value in the underlying business.
   General examples: takeover opportunities and complex situations where the market is too distracted to perform proper analysis.
   Portfolio examples: Tiffany & Co - subject to a takeover by LVMH, the owner of Louis Vuitton that we expect to be completed successfully. Change Healthcare - a leading US healthcare software company that recently completed a merger and distribution of shares in a complex transaction.
   Observations - by being nimble, we aim to take advantage of situations that are too complex for investors to take the time to understand in the current market turmoil.

4. **Eye of the storm businesses** - this category includes the most impacted businesses and touches a large range of industries ranging from airlines, hotels, commercial real estate, cruise ships to oil companies and industrial businesses that supply such industries.
   General examples: Boeing, Airbus, Hilton, Aéroports de Paris (ADP), Carnival
   Portfolio examples: None currently - although we have developed an extensive watchlist of businesses.
   Observations - Most of the companies in this category are best avoided but we are looking for companies that have unfairly been grouped in this category whose business is not likely to have been impaired but is priced as if it has been. Our main interest is in businesses with monopoly-like characteristics (such as airports).

5. **Gold -** a defensive category likely to benefit from the unprecedented level of Government money printing.
   Portfolio examples: Sandstorm Gold
   Observations - within the gold industry, some businesses stand out for their low cost operations and strong prospects of prospering from increases in the price of gold.

[5] Purchased subsequent to month end.

Despite the overall misery in the headlines, we have not felt so optimistic since the depths of the 2008 financial crisis given the opportunity set that has now opened up to us. The opportunities are not across the board by any measure. Investors must be very careful when negotiating a challenging landscape. Much of the recent market price action in the US in particular seems to be getting ahead of even medium term reality on the ground. To pick an example, a restaurant group we follow has seen its earnings drop by over 90% since the pandemic hit its business. The business in question sells steaks at low prices and its operating model relies on packing in diners at close proximity on Friday and Saturday night. This is not a business model that is suited to social distancing nor takeaways. Despite this, the share price is only slightly lower than before the crisis started. We suspect reality will catch up to the share price sooner rather than later.

We had a much greater than normal portfolio change during the month. We sold a number of holdings that held meaningful levels of debt. Levels that appeared sustainable prior to the crisis may now not be the case.

We added some very high quality businesses trading at compelling levels that do not reflect their long term future:

- Sandstorm Gold - see write-up posted on website
- Increased position in Shinoken - trading at 3.5x normalised earnings - see write-up posted on website
- Adidas - new position
- Change Healthcare
- Luminex - beneficiary of the COVID crisis as a seller of testing kits

It has traditionally been low priced value stocks that have led stock market recoveries following recessions. We believe that our portfolio is well placed for this. The timing on when the pendulum of this shift is difficult to predict given that a medical crisis will depend on a medical solution. Our cash levels remain high but we are steadily deploying the cash into new positions and will continue to provide portfolio level updates on the website.