STRATEGIC GLOBAL FUND

ARSN 613 886 392   APIR OMF0027AU

MONTHLY UPDATE November 2019

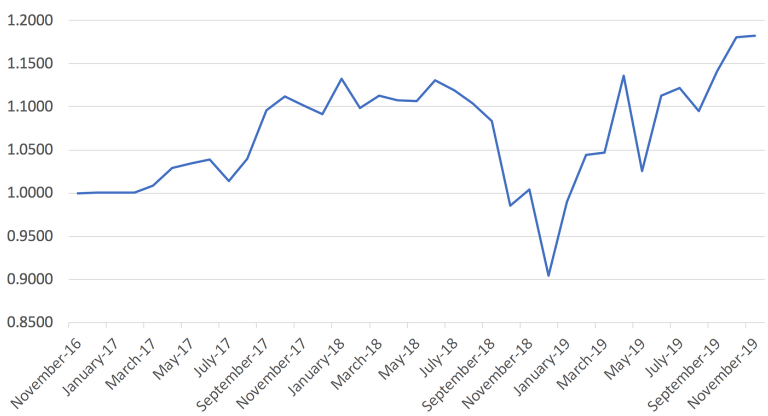
FUND FACTS

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



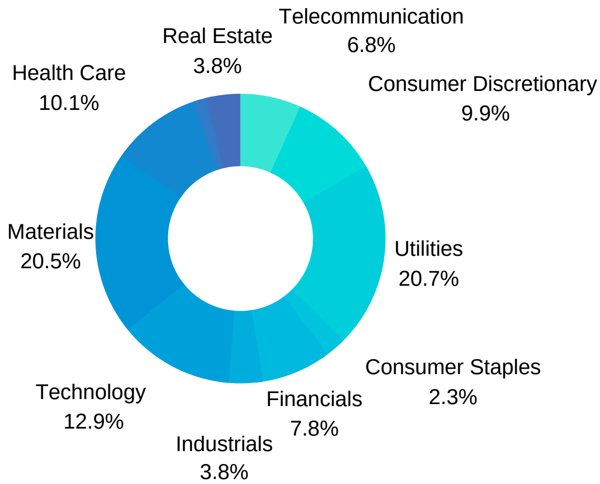
NET PERFORMANCE

1 Month	0.19%
3 Months	8.02%
6 Months	15.49%
Calendar Year to Date	31.00%

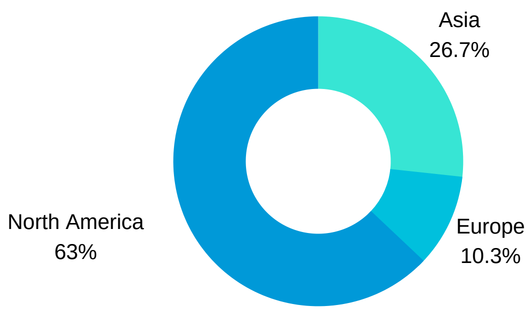
TOP TEN HOLDINGS

Company	Sector
LKQ	Consumer Discretionary
Sberbank	Financials
3SBIO	Health Care
Bausch Health	Health Care
Sea Limited	Information Technology
Crown Holdings	Materials
Graphic Packaging	Materials
Magnachip	Technology
Nexstar Media Group	Telecommunication
Vistra Energy	Utilities

INDUSTRY EXPOSURE



GEOGRAPHICAL EXPOSURE



SGF Monthly Update - November

- Fund slightly positive for November
- Fund has generated strong year to date returns of 31.00%
- Strong idea generation reflecting a market split between expensive and cheap

A pop quiz and a safer entertainment option

November was slightly positive and relatively free of significant news for the portfolio.

Investor psychology is often driven by what has been doing well recently. Investors often clamour to own what has been outperforming. The financial news focuses on company developments and particularly corporate events and growth. But the financial news will very rarely discuss what is a critical aspect of a sound investment decision. Let's illustrate this with a pop quiz. Here is the quiz - which of the following two companies would you rather invest in:

1. A well-known, large cap internet company growing revenue at 20% per annum; or
2. A boring broadcast TV business with flat revenue growth.

Easy choice, right?

But it isn't as easy as it looks as this is a trick question! If you selected either option already you have failed the test because there is a critical variable that is missing; the price. If you purchased the first company at too high a price it will most likely end up as a miserable investment. On the other hand, it may be that a defaulted bond (subject to many other factors) at a cheap enough price may be a far more compelling investment. And this is the problem with investment strategies (such as index funds) that are insensitive to price. If you pay 40x earnings, you are paying 40 years' worth of earnings. Without significant ongoing growth and a continuing high multiple this investment will likely disappoint.

It is rare for the financial media to mention valuation other than in passing.

This contrast in approach can be illustrated with portfolio holding **Nexstar** (company 2) versus non-portfolio holding **Netflix** (company 1). We purchased Nexstar at around 5x earnings. By contrast Netflix has no earnings to base a multiple on, as it is on track to burn $3.5 billion on its $20 billion in revenue. Investors remain excited by Netflix's fast growth given its $138 billion valuation plus $8 billion in debt. There are clouds on the horizon however. Netflix has yet to demonstrate its business model can be profitable. As it has grown subscriber numbers it has also spent money on more content at ever increasing cost. Initially, Netflix offered a cheap price of aggregated content from major studios. Now, it is losing much of its most popular content (such as *Friends, The Office, South Park* etc) as studios take back their content to launch their own streaming services as Disney has just done. Netflix's own content library seems to lack titles that will stand the test of time (who watches reruns of its marque show *House of Cards* and who ever watches shows such as *My Mum's Hotter Than Me*). This means that it will need to spend more money replacing such shows each year. Netflix recently quietly disclosed that it would burn cash "*for many years*".

Nexstar, by contrast, generates significant free cash flow. It doesn't garner the excitement that Netflix does, but at the same time its business is more straightforward. Nexstar is America's largest local television and media company with 197 TV stations in 115 markets addressing nearly 63% of US television households. Nexstar derives its revenues from two main sources: retransmission and advertising. Retransmission revenues represent the payments made by its cable TV partners for carriage of Nexstar content. This source of revenue has been growing over recent years. The second major bucket of revenues is advertising which increases dramatically during US Presidential election years. When we purchased Nexstar, the price was right, with our estimate of two years earnings representing 50% of the purchase price. Despite the 32% increase in price since purchase, as at the time of writing Netstar remains a compelling holding and one we feel is a safer investment than Netflix.